



(a joint stock company established under the laws of the People's Republic of China with limited liability)

**Offering of up to 82,515,000
Global Depositary Receipts representing A Shares
at an Offer Price expected to be between US\$20.00 and US\$24.50 per Global Depositary Receipt**

This document comprises a prospectus (the “**Prospectus**”) for the purposes of Article 3 of the European Union Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) relating to Huatai Securities Co., Ltd., a joint stock company established under the laws of the People's Republic of China (the “**PRC**”) with limited liability (the “**Company**”), which has been approved by the United Kingdom Financial Conduct Authority (the “**FCA**”) in accordance with the prospectus rules (the “**Prospectus Rules**”) of the FCA made under section 73A of the Financial Services and Markets Act 2000 (the “**FSMA**”) only in relation to the admission to listing and to trading of the global depositary receipts (the “**GDRs**”) representing A shares of the Company with a fully paid nominal value of RMB1.00 each (the “**A Shares**”). Application will be made solely for the admission of the GDRs to the standard segment of the official list maintained by the FCA (the “**Official List**”) and to trading on the Shanghai-London Stock Connect segment of the main market for listed securities (the “**Main Market**”) of London Stock Exchange plc (the “**London Stock Exchange**”), which is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). This Prospectus has been prepared in connection with the application for the admission of the GDRs to the Main Market of the London Stock Exchange. Approval of the FCA has not been sought by the Company for this Prospectus in relation to the A Shares or the overseas listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange (the “**H Shares**”), and no ordinary shares in the capital of the Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares (the “**Shares**”), will be listed on the Main Market of the London Stock Exchange. This Prospectus will be made available to the public in accordance with the Prospectus Rules.

This Prospectus relates to an offering (the “**Offering**”) by the Company of up to 82,515,000 GDRs (including any Over-allotment GDRs (as defined below)) representing A Shares (the “**Offer GDRs**”) with one GDR representing an interest in ten A Shares. The GDRs are to be issued against the deposit of A Shares (to the extent permitted by applicable laws and regulations) with Citibank, N.A., as depositary (the “**Depositary**”). It is currently expected that the final offer price (the “**Offer Price**”) for the Offer GDRs will be set within the offer price range (the “**Offer Price Range**”). In connection with the Offering, the Company has granted to the Stabilising Manager (as defined below) an option, exercisable within 30 days after the announcement of the Offer Price, to purchase up to an additional 10% of the aggregate number of Offer GDRs (excluding the Over-allotment GDRs (as defined below)) (the “**Over-allotment Option**”).

Application will be made (1) to the FCA, in its capacity as competent authority under the FSMA, for a listing of 82,515,000 GDRs representing A Shares, and, consisting of the GDRs to be issued on or about 20 June 2019 (the “**Closing Date**”), the GDRs (if any) to be issued pursuant to the Over-Allotment Option (if exercised) and additional GDRs to be issued from time to time against the deposit of A Shares (to the extent permitted by applicable laws and regulations) with the Depositary, to be admitted to the standard segment of the Official List and (2) to the London Stock Exchange, for such GDRs to be admitted to trading on the Main Market of the London Stock Exchange, which is regulated under the Markets in Financial Instruments Directive 2004/39/EC, through its international order book (the “**IOB**”). Admission to the Official List and unconditional trading on the London Stock Exchange (“**Admission**”) is expected to take place on or about 20 June 2019. The GDRs are expected to be traded on the Shanghai-London Stock Connect segment of the Main Market under the symbol “HTSC”. The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a “when issued” basis on or about 17 June 2019. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

The Offer GDRs are being offered and sold to persons that are not “US persons” in “offshore transactions” within the meaning of Regulation S (“**Regulation S**”) under the US Securities Act of 1933, as amended (the “**Securities Act**”).

The A Shares are listed and traded on the Shanghai Stock Exchange under the stock code 601688. Prices for the A Shares traded on the Shanghai Stock Exchange may not reflect the value of the GDRs.

See “Risk Factors” beginning on page 25 to read about factors you should consider before buying the Offer GDRs. The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may only be offered or sold outside the United States to a person not known by you, by pre-arrangement or otherwise, to be a US person (as defined in Regulation S) and in each case in accordance with any applicable state or local securities laws. For a discussion of certain restrictions on transfers of the GDRs in other jurisdictions, see “*Terms and Conditions of the Global Depositary Receipts*” and “*Selling Restrictions and Transfer Restrictions—Transfer Restrictions*”.

The Offer GDRs are offered by J.P. Morgan Securities plc (“**J.P. Morgan**”), Huatai Financial Holdings (Hong Kong) Limited (“**Huatai Financial Holdings**”) and Morgan Stanley & Co. International plc (“**Morgan Stanley**”) and together with J.P. Morgan and Huatai Financial Holdings, the “**Joint Global Co-ordinators**”), Credit Suisse Securities (Europe) Limited (“**Credit Suisse**”) and HSBC Bank plc (“**HSBC**”) and together with the Joint Global Co-ordinators and Credit Suisse the “**Joint Bookrunners**”) when, as and if delivered to and accepted by the Joint Bookrunners and subject to their right to reject orders in whole or in part. The GDRs will be issued in global form. The GDRs will be evidenced by a Master Global Depositary Receipt Certificate (the “**Master GDR Certificate**”) registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”), and Clearstream Banking, société anonyme (“**Clearstream**”). Except as described herein, beneficial interests in the Master GDR Certificate will be shown on, and transfers thereof will be effected only through the records of Euroclear and Clearstream, Luxembourg. It is expected that delivery of the GDRs will be made against payment therefor in US Dollars in same day funds through the facilities of Euroclear and Clearstream on or about the Closing Date. See “*Clearing and Settlement*”.

Joint Global Co-ordinators and Joint Bookrunners

J.P. Morgan

Huatai Financial Holdings

Morgan Stanley

Joint Bookrunners

Credit Suisse

HSBC

The date of this Prospectus is 11 June 2019

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

By accepting delivery of this Prospectus, you agree to the following. This Prospectus is being furnished by the Company solely for the purpose of enabling a prospective investor to consider the subscription for the Offer GDRs. Any reproduction or distribution of this Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Joint Bookrunners, nor any of their respective affiliates, makes any representation, express or implied, nor accept any responsibility, with respect to the accuracy or completeness of any of the information contained in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company or the Joint Bookrunners that any recipient of this Prospectus should subscribe for the Offer GDRs. Each potential subscriber of Offer GDRs should determine for itself the relevance of the information contained in this Prospectus, and its subscription for the Offer GDRs should be based upon such investigation, as it deems necessary, including the assessment of risks involved and its own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such potential subscriber in connection with the subscription for the Offer GDRs.

This Prospectus, including the financial information included herein, is in compliance with the Prospectus Rules of the FCA, which comply with the provisions of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”), for the purpose of giving information with regard to the Company and the Offer GDRs.

The Company accepts responsibility for the information contained in this Prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Company’s knowledge, in accordance with the facts and contains no omissions likely to affect its import.

This Prospectus does not constitute an offer to the public generally to subscribe for or otherwise acquire the Offer GDRs. In making an investment decision regarding the Offer GDRs, you must rely on your own examination of the Company and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this Prospectus. None of the Company or the Joint Bookrunners has authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this Prospectus is accurate only as at its date. The Company’s business, financial condition, results of operations, prospects and the information set forth in this Prospectus may have changed since the date of this Prospectus.

You should not consider any information in this Prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Offer GDRs. None of the Company or the Joint Bookrunners makes any representation to any offeree or subscriber for the Offer GDRs regarding the legality of an investment in the Offer GDRs by such offeree or subscriber under appropriate investment or similar laws.

As the Company’s A Shares are listed on the Shanghai Stock Exchange and its H Shares are listed on the Hong Kong Stock Exchange, it has been subject to periodic reporting and other

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

information disclosure requirements in China and Hong Kong. As a result, from time to time the Group publicly releases information relating to itself on the Shanghai Stock Exchange, Hong Kong Stock Exchange, or other media outlets designated by the China Securities Regulatory Commission (the “CSRC”) or the Hong Kong Securities and Futures Commission (the “SFC”). However, the information announced by the Company in connection with its A Shares or H Shares is based on the regulatory requirements of the securities authorities and market practices in China or Hong Kong which are different from those which will be applicable to the GDRs following Admission. Such information does not and will not form a part of this Prospectus. As a result, prospective investors in the Offering are reminded that, in making their investment decisions as to whether to purchase the GDRs, they should rely only on the financial, operating and other information included in this Prospectus. By applying to purchase GDRs in the Offering, prospective investors will be deemed to have agreed that they will not rely on any information other than that contained in this Prospectus and any formal announcements made by the Group in China or Hong Kong with respect to the Offering.

J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, Credit Suisse Securities (Europe) Limited and HSBC Bank plc are each authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority in the United Kingdom. Huatai Financial Holdings (Hong Kong) Limited is licensed by the Securities and Futures Commission of Hong Kong. The Joint Bookrunners are acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to any other person as their respective clients in relation to the Offering and for providing the protections afforded to their respective clients or for providing advice in relation to the Offering or any transaction or arrangement referred to herein.

Each investor acknowledges that: (i) it has not relied on the Joint Bookrunners or any person affiliated with the Joint Bookrunners in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) it has relied only on the information contained in this document; and (iii) no person has been authorised to provide any information or to make any representation concerning the Company, its subsidiaries or the GDRs (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Bookrunners.

In connection with the Offering, each of the Joint Bookrunners and/or any of their respective affiliates and/or funds managed by affiliates of the Company acting as an investor for its or their own account(s) may subscribe for Offer GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the Offer GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Joint Bookrunners and/or any of their respective affiliates and/or funds managed by affiliates of the Company acting as an investor for its or their own account(s). In addition, certain of the Joint Bookrunners or their affiliates may enter into financing or hedging arrangements (including swaps) with investors in connection with which such Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of GDRs. Neither the Joint Bookrunners nor the Company intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company may withdraw the Offering at any time prior to Admission, and the Company and the Joint Bookrunners reserve the right to reject any offer to subscribe for the Offer GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the Offer GDRs sought by such investor.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than Offer GDRs. The distribution of this Prospectus and the offer and sale of the Offer GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “*Terms and Conditions of the Global Depositary Receipts*” and “*Selling Restrictions and Transfer Restrictions*” elsewhere in this Prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you subscribe, purchase, offer or sell the Offer GDRs or possess or distribute this Prospectus and must obtain any consent, approval or permission required for your subscription, purchase, offer or sale of the Offer GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such subscriptions, purchases, offers or sales. None of the Company or the Joint Bookrunners is making an offer to sell the Offer GDRs or a solicitation of an offer to buy any of the Offer GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted or accepts any legal responsibility for any violation by any person, whether or not a prospective investor, or applicable restrictions.

In connection with the Offering, J.P. Morgan Securities plc (the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager) may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action and, in particular, the Stabilising Manager’s ability to undertake stabilisation action depends on deferred settlement arrangements being agreed with one or more investors in order to allow it to over-allot GDRs. Any stabilisation action may begin on the date of announcement of the Offer Price and, if begun, may be ended at any time but must end no later than 30 calendar days thereafter (the “**Stabilisation Period**”). Any stabilisation action must be undertaken in accordance with applicable laws and regulations. Save as required by law or regulation, the Stabilising Manager does not intend to disclose the extent of any over-allotments made and/or stabilisation transactions concluded in relation to the Offering.

In connection with the Offering, the Stabilising Manager may, for stabilisation purposes and subject to the deferred settlement arrangements described above, over-allot GDRs up to a maximum of 10% of the total number of GDRs sold in the Offering. For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by it during the Stabilisation Period, the Stabilising Manager will enter into over-allotment arrangements pursuant to which the Stabilising Manager may purchase or procure purchasers for additional GDRs up to a maximum of 10% of the total number of GDRs sold in the Offering (the “**Over-allotment GDRs**”) at the Offer Price. The over-allotment arrangements will be exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the date of announcement of the Offer Price. Any Over-allotment GDRs made available pursuant to the over-allotment arrangements, including for all dividends and other distributions declared, made or paid on the GDRs, will be purchased on the same terms and conditions as the GDRs being issued or sold in the Offering and will form a single class for all purposes with the other GDRs.

Information to distributors

Solely for the purposes of the product governance requirements contained within (a) EU Directive 2014/65/EU on markets in financial instruments, as amended (“**MiFID II**”), (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II, and (c) local

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

implementing measures (together, the “**MiFID II Product Governance Requirements**”), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any “manufacturer” (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Offer GDRs have been subject to a product approval process, which has determined that such Offer GDRs are (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the “**Target Market Assessment**”). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer GDRs may decline and investors could lose all or part of their investment; the Offer GDRs offer no guaranteed income and no capital protection; and an investment in the Offer GDRs is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute (a) an assessment of suitability or appropriateness for the purposes of MiFID II, or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer GDRs.

Each distributor is responsible for undertaking its own target market assessment in respect of the Offer GDRs and determining appropriate distribution channels.

NOTICES TO CERTAIN INVESTORS

Notice to UK and other EEA Investors

This Prospectus and the Offering are only addressed to and directed at persons in member states of the European Economic Area (the “**EEA**”), who are “qualified investors” (“**Qualified Investors**”) within the meaning of Article 2(1)(e) of the Prospectus Directive (including any amendments thereto, including Directive 2010/73/EU, to the extent implemented in each relevant member state of the EEA, and including any relevant implementing measure in each relevant member state of the EEA). In addition, in the United Kingdom, this Prospectus is only being distributed to and is only directed at Qualified Investors who are (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or high-net-worth entities falling within Article 49(2)(a)-(d) of the Order or (2) otherwise persons to whom it may lawfully be communicated (all such persons together being referred to as “**relevant persons**”). The Offer GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This Prospectus has been prepared solely for the purpose of Admission of the GDRs and on the basis that all offers of Offer GDRs following approval by the FCA will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a Prospectus for offers of the Offer GDRs. Accordingly, any person making or intending to make any offer within the EEA of the Offer GDRs should only do so in circumstances in which no obligation arises for the Company or any of the Joint Bookrunners to produce a prospectus for such offer. None of the Company or the Joint Bookrunners has authorised or authorises the making of any offer of the Offer GDRs through any financial intermediary, other than offers made by the Joint Bookrunners which constitute the final placement of the Offer GDRs contemplated in this Prospectus.

Notice to non-US persons outside the United States

If you purchase the Offer GDRs offered outside the United States in accordance with Regulation S hereby, you, by accepting delivery of this Prospectus, will be deemed to have represented and agreed as follows:

- (1) you are, or at the time the Offer GDRs are offered or purchased pursuant to Regulation S, will be, the beneficial owner of such Offer GDRs and (A) you, and the person, if any, for whose account you are acquiring the Offer GDRs, are non-US persons located outside the United States and are acquiring the Offer GDRs in an offshore transaction in accordance with Regulation S and (B) you are not an affiliate of the Group or a person acting on behalf of the Group or such an affiliate;
- (2) you, and the person, if any, for whose account you are acquiring the Offer GDRs, understand that the Offer GDRs have not been, and will not be, registered under the Securities Act or any state securities laws in the United States and that, prior to the expiration of the distribution compliance period, you will only offer, sell, pledge or otherwise transfer such Offer GDRs outside the United States to a person not known by you, by pre-arrangement or otherwise, to be a US person (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with applicable securities laws of any state of the United States; and

NOTICES TO CERTAIN INVESTORS

- (3) any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Offer GDRs.

Notice to all investors

Investors should be aware that foreign investors are not generally able to hold A shares in Chinese companies pursuant to restrictions under PRC law, subject to certain limited exemptions, such as for Qualified Foreign Institutional Investors (“**QFIIs**”) and RMB Qualified Foreign Institutional Investors (“**RQFIIs**”).

However, one of the features of the Shanghai-London Stock Connect scheme is that investors will be able to (i) buy GDRs by requesting a designated broker to buy A Shares on the Shanghai Stock Exchange and instruct the Depositary to create GDRs representing such A Shares and (ii) sell GDRs by requesting a designated broker to redeem their GDRs and sell the underlying A Shares on the Shanghai Stock Exchange. Pursuant to the “Provisions on the Supervision and Administration of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange” (for trial implementation) (关于上海证券交易所与伦敦证券交易所互联互通存托凭证业务的监管规定（试行）) published by the CSRC on 12 October 2018 (the “**DR Provisions**”), the creation and redemption of GDRs in connection with the purchase and sale of underlying A Shares may only be facilitated by the designated brokers who hold accounts with Shanghai Stock Exchange members enabling them to create or redeem GDRs by buying or selling the underlying A Shares on the Shanghai Stock Exchange (subject to certain quotas imposed by relevant regulators) and providing relevant instructions to the Depositary. For further details, please see “*Plan of Distribution—Trading GDRs*”.

This mechanism is intended to provide fungibility between the GDRs and the A Shares by enabling investors or their brokers to place buy and sell orders with the designated brokers who are able to seek the best price for the security from either market.

It should be noted that, pursuant to the Shanghai-London Stock Connect scheme, GDR holders will not be permitted to redeem their GDRs and hold the underlying A Shares in their on-shore accounts (such as QFII or RQFII accounts, where they have such an account) or have the underlying A Shares held on their behalf by a designated broker. GDR holders that are QFIIs and RQFIIs (or are otherwise able to hold A Shares through another exemption) that wish to redeem some or all of their GDRs to hold A Shares would need to sell such GDRs (either on the London Stock Exchange or by redeeming their GDRs and selling the underlying A Shares on the Shanghai Stock Exchange, as described above) and separately buy A Shares outside of the Shanghai-London Stock Connect scheme to be held in a separate (existing or newly established) QFII or RQFII or other account.

In addition, pursuant to the DR provisions GDRs subscribed for by investors in the Offering may not be redeemed within 120 days following the date of Admission. Therefore, for such period, GDR holders will not be able to redeem their GDRs and sell the underlying A Shares on the Shanghai Stock Exchange and will only be able to sell their GDRs through the IOB of the London Stock Exchange or another legitimate trading venue. For the avoidance of doubt, during such period investors will be able to buy GDRs by requesting a designated broker to buy A Shares on the Shanghai Stock Exchange and instruct the Depositary to create GDRs representing such A Shares.

Investors should also be aware that pursuant to the DR Provisions the aggregate holding of a single overseas investor of the equities of the Company (including the A Shares, H Shares and GDRs whether held directly or indirectly) shall not exceed 10% of the total outstanding shares of the Company. In the event an overseas investor’s holding of equities exceeds such limit, such investor is

NOTICES TO CERTAIN INVESTORS

required to liquidate the excess portion within five trading days. Furthermore, the DR Provisions also require that the aggregate holdings of A Shares of all overseas investors in the Company shall not exceed 30% of the total outstanding shares of the Company. In the event the 30% limit is exceeded, the CSRC may require overseas investors to liquidate their holdings (in reverse chronological order of when such holdings were acquired). The foregoing restrictions do not apply to overseas investors' strategic investments as defined and regulated by the Measures for the Administration of Strategic Investment in Listed Companies by Foreign Investors (外国投资者对上市公司战略投资管理办法).

Furthermore, investors should note that to the extent stabilisation is undertaken, in order to ensure there is sufficient headroom under the GDR facility, including under the cap on the number of GDRs prescribed by the CSRC as provided by the DR Provisions, for the Company to issue new A Shares and sell GDRs representing such A Shares to the Stabilising Manager in order to satisfy its obligations under the Over-allotment Option (if exercised), investors and shareholders of the Company may be prevented from depositing additional A Shares into the GDR facility in order to receive (or sell) GDRs for the duration of the Stabilisation Period.

Pursuant to the Measures for the Administration of Acquisition of Listed Companies (上市公司收购管理办法) promulgated by the CSRC and last amended in October 2014, any person who holds 5% or more of the outstanding shares in a listed company (including the Company) shall, within three days upon its shareholding in the listed company reaching such percentage, (i) prepare a report on its change of shareholding, (ii) notify the CSRC, the relevant stock exchange and the listed company, and (iii) make an announcement on such event. In addition, a person holding 5% or more of a listed company's outstanding shares shall be subject to the same reporting and announcement obligations as set out above each time its shareholding in the listed company increases or decreases by 5%. Such persons will be subject to trading restrictions before and/or within a period of time after the reporting, filing and disclosure obligations are fulfilled. A person holding 5% or more of the outstanding shares in a listed company may file a short-form report if it holds less than 20% of the outstanding shares in the listed company and it is not the largest shareholder or de facto controlling person of the listed company; otherwise it will be required to file a long-form report disclosing its shareholding. Pursuant to the DR Provisions, an investor's holding of GDRs will be aggregated with its holding of the Company's outstanding Shares through other channels, including but not limited to, any direct holding of the Company's A Shares and H Shares, as well as the holding of GDRs and Shares by persons acting-in-concert with such investor. The Company is also required to disclose in its annual reports, among other things, information on persons holding 5% of its Shares, together with any changes to their shareholding and any pledge or encumbrance over the Shares held by such persons.

Furthermore, pursuant to the Articles of Association of the Company persons holding 5% or more of the total equity interests in the Company are also required to notify the Company within five days upon the occurrence of any of the following events:

- its equity interest in the Company being subject to judicial attachment or enforcement;
- its equity interest in the Company being pledged;
- any change in its de facto controlling person;
- a change in its name;
- any merger or spin-off in which it is involved;
- it being subject to any mandatory business suspension, custody, receivership or cancellation, or any dissolution, bankruptcy or insolvency proceeding;

NOTICES TO CERTAIN INVESTORS

- it being subject to administrative or criminal penalties due to material violation of laws; and
- other events that may cause a change of control over the equity interest that it holds or which may affect the operations of the Company.

CONTENTS

	<u>Page</u>
SUMMARY	1
RISK FACTORS	25
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	53
THE OFFERING	57
REASONS FOR THE OFFER AND USE OF PROCEEDS	61
DIVIDEND POLICY	63
CAPITALISATION AND INDEBTEDNESS	64
INDUSTRY OVERVIEW	65
BUSINESS DESCRIPTION	74
REGULATION	103
SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER FINANCIAL DATA	116
OPERATING AND FINANCIAL REVIEW	120
RISK MANAGEMENT	179
MANAGEMENT AND CORPORATE GOVERNANCE	189
PRINCIPAL SHAREHOLDERS	211
RELATED PARTY TRANSACTIONS	212
DESCRIPTION OF THE COMPANY'S SHARE CAPITAL	213
TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS	221
SUMMARY OF THE PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM	250
DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS	252
TAXATION	256
PLAN OF DISTRIBUTION	262
SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS	267
CLEARING AND SETTLEMENT	274
INFORMATION RELATING TO THE DEPOSITARY	276
INDEPENDENT AUDITORS	277
LEGAL MATTERS	278
GENERAL INFORMATION	279
DEFINITIONS	282
INDEX TO FINANCIAL STATEMENTS	F-1

SUMMARY

Summaries are made up of disclosure requirements known as ‘Elements’. These Elements are numbered in Sections A—E (A.1—E.7) below. This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ‘not applicable’.

Section A—Introduction and Warnings		
A.1	Warning	This summary should be read as an introduction to this Prospectus and any decision to invest in the Offer GDRs should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States have to bear the costs of translating this Prospectus before the legal proceedings are initiated and civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in such Offer GDRs.
A.2	Consent for intermediaries	Not applicable. This Prospectus does not relate to an offer of securities via intermediaries.
Section B – Issuer		
B.31/B.1	The legal and commercial name of the issuer	Huatai Securities Co., Ltd. (the “ Company ” or “ HTSC ” (if being referred to in Hong Kong), and together with its subsidiaries, the “ Group ”)
B.31/B.2	The domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation	The Company is a joint stock company with limited liability established pursuant to the Company Law of the People’s Republic of China. The Company’s registered office is located at No. 228 Middle Jiangdong Road, Nanjing, Jiangsu Province 210019, People’s Republic of China.

SUMMARY

B.31/B.3	A description of, and key factors relating to, the nature of the issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes	The Group is a leading technology-enabled securities group in China, with a highly collaborative business model, cutting-edge digital platforms, and an extensive and engaging client base. From 2012 to 2018, the Group's number of wealth management customers increased twofold to 12.7 million, and total revenue and other income increased fourfold to RMB24,506.7 million. The Group ranked fourth among PRC securities firms in terms of net profit attributable to the shareholders of the Company in 2018. Over its 28 years of operating history, the Group has achieved rapid growth by successfully capitalising on the transformation and development opportunities of the PRC securities industry. It has completed a series of successful mergers and acquisitions, completed IPOs of its A Shares on the Shanghai Stock Exchange and H Shares on the Hong Kong Stock Exchange, and navigated various market and business cycles and regulatory reforms. The Group operates four principal business segments: ● <i>Wealth management business</i>, which offers convenient online wealth management solutions and customised advisory solutions, including securities and derivatives brokerage, financial products sales and capital-based intermediary services; ● <i>Institutional services business</i>, which provides comprehensive financial services to various types of corporate and institutional clients, including investment banking, institutional investor services and investment and trading; ● <i>Investment management business</i>, which provides full-service asset management solutions, including securities firm asset management, private equity fund management and mutual fund management; and ● <i>International business</i>, which provides full-scope financial services in Hong Kong through Huatai Financial Holdings, and wealth management and technology solutions in the US through AssetMark.

SUMMARY

B.31/B.4a	A description of the most significant recent trends affecting the issuer and the industries in which it operates	The most significant recent trends affecting the Group and the securities industry in China include: ● The continuous expansion and evolution of wealth management market in China will bring substantial opportunities to securities firms. ● Economic transformation and industry upgrade, particularly the rise of new economies, as well as the capital markets reform and development, have provided strategic opportunities for further development of securities firms' investment banking business. ● The institutionalisation of capital market participants and the improved sophistication of institutional investors set increasingly higher standards for securities firms' institutional services. ● Asset management industry is expected to continue its growth trajectory alongside more coordinated regulation. ● The two-way opening up of capital markets has attracted more international investors to the domestic market and accelerated the internationalisation of the PRC securities industry. ● Technology advancement is reshaping the PRC securities industry. ● The strengthening of regulations will be more beneficial to large-scale comprehensive securities firms with solid financial position and sound risk management.
B.31/B.4b	A description of any known trends affecting the issuer and the industries in which it operates	The other trends affecting the Group and the PRC securities industry include: Economic and market conditions A substantial majority of the Group's revenue is derived from the securities markets in China. As a result, the Group's business, financial condition and results of operations are directly affected by the inherent risks associated with the PRC securities markets, such as market volatility, fluctuations in the trading volume and the debt repayment or perceived creditworthiness of the securities industry. The Group's business is also subject to

SUMMARY

		general economic and political conditions, such as macroeconomic and monetary policies, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates. Competition The PRC securities industry is highly competitive, and the Group faces intense competition in most of its business lines. The Group competes principally with other full-service securities firms in China, some of which offer a broader range of services and have greater financial resources or a larger client base. In addition, the Group faces increasing competition from other financial institutions, such as commercial banks, fund management companies, and other financial services providers, such as internet financial service providers, discount online brokers and PRC subsidiaries of foreign financial institutions. Regulatory environment The Group's results of operations, financial condition and prospects are subject to regulatory developments in the PRC and economic measures undertaken by the PRC government. In particular, the Group believes that the ability to expand the business and broaden the scope of the product and service offerings has been and will continue to be materially affected by changes in the policies, laws and regulations governing the PRC securities industry, including the extent to which the Group can engage in certain businesses or adopt certain business models and fee structures.
B.31/B.5	If the issuer is part of a group, a description of the group and the issuer's position within the group	The Company is the parent company of a group that comprises the Company and its subsidiaries. The chart below sets forth the simplified organisational structure of the Group and its major associates as at the date of this Prospectus: <pre> graph TD Company[The Company] -- 100% --> HuataiSec[Huatai Securities (Shanghai) Asset Management Co., Ltd.] Company -- 100% --> HuataiPG[Huatai Purple Gold Investment Co., Ltd.] Company -- 100% --> HuataiFH[Huatai Financial Holdings] Company -- 98.59% --> AssetMark[AssetMark] Company -- 100% --> HuataiInnov[Huatai Innovative Investment Co., Ltd.] Company -- 99.92% --> HuataiUnited[Huatai United] Company -- 60% --> HuataiFutures[Huatai Futures Co., Ltd.] Company -- 52% --> Jiangsu[Jiangsu Equity Exchange Centre Co., Ltd.] Company -- 45% --> ChinaSouthern[China Southern Asset Management Co., Ltd.] Company -- 49% --> HuataiPinebridge[Huatai-Pinebridge Fund Management Co., Ltd.] </pre> (1) Huatai Financial Holdings and AssetMark are indirectly controlled by the Company through its wholly-owned subsidiary, Huatai International.

SUMMARY

		(2) On 23 April 2019, AssetMark submitted on a confidential basis to the United States Securities and Exchange Commission (the “SEC”) a draft registration statement for the possible registered public offering in the United States of the shares of AssetMark. The proposed spin-off and separate listing of AssetMark is subject to, among other things, prevailing market conditions and the obtaining of approvals from the relevant authorities, including the CSRC and the SEC.																						
B.31/B.6	In so far as is known to the issuer, the name of any person who, directly or indirectly, has an interest in the issuer’s capital or voting rights which is notifiable under the issuer’s national law, together with the amount of each such person’s interest. Whether the issuer’s major shareholders have different voting rights if any. To the extent known to the issuer, state whether the issuer is directly or indirectly owned or controlled and by whom and describe the nature of such control	As at the date of this Prospectus, the Company had issued a total of 6,532,454,320 A Shares with a par value of RMB1.0 per share and 1,719,045,680 H Shares with a par value of RMB1.0 per share. The Administrative Measures for the Disclosure of Information of Listed Companies of the PRC require that an annual report of a listed company shall include, among other things, the information about the top 10 shareholders and the shareholders holding 5% or more of the shares. The Securities and Futures Ordinance Part XV of Hong Kong requires corporate insiders to give notice to both The Stock Exchange of Hong Kong Limited and the listed corporation concerned on the individuals and corporations who are interested in 5% or more of any class of voting shares in a listed corporation. The table below identifies top 10 beneficial owners of any class of the Company’s Shares, based on shares outstanding as at 31 March 2019. No shareholder has different voting rights attached to the Shares to any other shareholder. <table><tr><th><u>Name of shareholder (full name)</u></th><th><u>Percentage (%)</u></th></tr><tr><td>HKSCC Nominees Limited</td><td>20.3</td></tr><tr><td>Jiangsu Guoxin Investment Group Limited</td><td>15.6</td></tr><tr><td>Jiangsu Communications Holding Company Limited</td><td>5.6</td></tr><tr><td>Govtor Capital Group Co., Ltd.</td><td>4.3</td></tr><tr><td>Alibaba (China) Technology Co., Ltd.</td><td>3.3</td></tr><tr><td>Suning.Com Co., Ltd.</td><td>3.2</td></tr><tr><td>Essence Securities-China Merchants Bank-Essence Securities Dingzengbao No. 1 Collective Asset Management Scheme . . .</td><td>3.0</td></tr><tr><td>China Securities Finance Corporation Limited</td><td>3.0</td></tr><tr><td>China Structural Reform Fund Corporation Limited</td><td>1.9</td></tr><tr><td>Jiangsu SOHO Holdings Group Co., Ltd. . .</td><td>1.6</td></tr></table>	<u>Name of shareholder (full name)</u>	<u>Percentage (%)</u>	HKSCC Nominees Limited	20.3	Jiangsu Guoxin Investment Group Limited	15.6	Jiangsu Communications Holding Company Limited	5.6	Govtor Capital Group Co., Ltd.	4.3	Alibaba (China) Technology Co., Ltd.	3.3	Suning.Com Co., Ltd.	3.2	Essence Securities-China Merchants Bank-Essence Securities Dingzengbao No. 1 Collective Asset Management Scheme . . .	3.0	China Securities Finance Corporation Limited	3.0	China Structural Reform Fund Corporation Limited	1.9	Jiangsu SOHO Holdings Group Co., Ltd. . .	1.6
<u>Name of shareholder (full name)</u>	<u>Percentage (%)</u>																							
HKSCC Nominees Limited	20.3																							
Jiangsu Guoxin Investment Group Limited	15.6																							
Jiangsu Communications Holding Company Limited	5.6																							
Govtor Capital Group Co., Ltd.	4.3																							
Alibaba (China) Technology Co., Ltd.	3.3																							
Suning.Com Co., Ltd.	3.2																							
Essence Securities-China Merchants Bank-Essence Securities Dingzengbao No. 1 Collective Asset Management Scheme . . .	3.0																							
China Securities Finance Corporation Limited	3.0																							
China Structural Reform Fund Corporation Limited	1.9																							
Jiangsu SOHO Holdings Group Co., Ltd. . .	1.6																							

SUMMARY

B.31/B.7	Selected historical key financial information regarding the issuer, presented for each financial year of the period covered by the historical financial information, and any subsequent interim financial period accompanied by comparative data from the same period in the prior financial year except that the requirement for comparative balance sheet information is satisfied by presenting the year-end balance sheet information. This should be accompanied by a narrative description of significant change to the issuer's financial condition and operating results during or subsequent to the period covered by the historical key financial information.

The following selected historical key financial information is a summary of the Group's financial information for the periods indicated.

Selected Statement of Comprehensive Income Data

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Revenue					
Fee and commission income	11,409.9	12,926.3	10,819.9	2,671.5	3,047.3
Interest income	8,878.0	9,348.9	9,482.4	2,467.1	1,879.3
Net investment gains	3,976.1	7,302.3	3,374.6	953.4	2,209.2
Total revenue	24,264.0	29,577.5	23,676.9	6,092.0	7,135.8
Other income and gains	367.6	1,745.9	829.8	190.0	213.2
Total revenue and other income	24,631.6	31,323.4	24,506.7	6,282.0	7,349.0
Fee and commission expenses	(2,561.7)	(4,244.2)	(2,757.7)	(680.9)	(905.6)
Interest expenses	(5,393.5)	(5,749.1)	(6,467.0)	(1,733.1)	(1,376.1)
Staff costs	(5,648.4)	(7,030.2)	(5,372.3)	(1,326.8)	(1,636.7)
Depreciation and amortisation expenses . . .	(408.5)	(566.3)	(625.9)	(145.3)	(268.6)
Tax and surcharges	(450.6)	(152.4)	(139.7)	(33.4)	(39.6)
Other operating expenses	(2,066.2)	(2,277.5)	(2,792.0)	(544.8)	(650.6)
Reversal of/(provision for) impairment losses	36.7	(259.0)	N/A	N/A	N/A
Net (provision for)/reversal of impairment loss on financial assets	N/A	N/A	(862.7)	48.0	(21.8)
Net reversal of/(provision for) impairment loss on other assets	N/A	N/A	N/A	(0.7)	2.5
Total expenses	(16,492.2)	(20,278.7)	(19,017.3)	(4,417.0)	(4,896.5)
Operating profit	8,139.4	11,044.7	5,489.4	1,865.0	2,452.5
Share of profit of associates and joint ventures	454.0	540.0	959.3	600.9	1,025.1
Profit before income tax	8,593.4	11,584.7	6,448.7	2,465.9	3,477.6
Income tax expense	(2,073.9)	(2,176.8)	(1,287.8)	(494.6)	(839.4)
Profit for the year / period	6,519.5	9,407.9	5,160.9	1,971.3	2,638.2
Attributable to:					
Shareholders of the Company	6,270.6	9,276.5	5,032.7	1,953.7	2,613.0
Non-controlling interests	248.9	131.4	128.2	17.6	25.2
	6,519.5	9,407.9	5,160.9	1,971.3	2,638.2

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.
The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

SUMMARY

Selected Statement of Financial Position Data

	As at 31 December			As at 31 March
	2016	2017	2018	2019
				unaudited, reviewed
	(RMB in millions)			
ASSETS				
<i>Non-current assets</i>				
Property and equipment	3,567.4	3,737.5	3,548.2	4,280.2
Investment properties	1,130.3	844.7	586.3	580.5
Goodwill	2,091.3	1,971.7	2,099.4	2,057.4
Other intangible assets	5,509.0	5,137.7	5,462.0	5,328.0
Interest in associates	3,075.5	8,895.9	12,527.8	13,464.3
Interest in joint ventures	301.8	—	649.8	651.8
Debt investment at amortised cost	—	—	13,854.9	14,199.1
Financial assets at fair value through other comprehensive income	—	—	10,098.4	10,917.1
Held-to-maturity investments	5.0	—	—	—
Available-for-sale financial assets	31,218.1	29,766.9	—	—
Financial assets held under resale agreements	8,930.4	8,424.3	2,812.2	458.7
Financial assets at fair value through profit or loss	1,294.4	1,796.7	5,155.2	5,148.1
Refundable deposits	8,158.6	7,302.3	7,836.5	8,574.1
Deferred tax assets	556.1	472.6	225.1	189.0
Other non-current assets	79.1	81.0	259.8	248.2
Total non-current assets	65,917.0	68,431.3	65,115.6	66,096.5
<i>Current assets</i>				
Accounts receivable	991.4	1,980.3	3,090.2	5,197.1
Other receivables and prepayments	5,070.5	6,259.6	1,555.1	1,158.3
Margin accounts receivable	56,605.1	59,991.5	46,188.9	57,933.5
Debt investment at amortised cost	—	—	2,419.3	2,554.4
Available-for-sale financial assets	12,518.5	14,816.2	—	—
Financial assets held under resale agreements	37,400.8	53,381.0	40,744.4	42,663.3
Financial assets at fair value through profit or loss	81,812.8	82,753.8	117,089.2	145,012.5
Financial assets at fair value through other comprehensive income	—	—	358.3	471.4
Derivative financial assets	106.6	391.7	1,933.9	948.1
Clearing settlement funds	1,228.8	1,147.5	3,023.4	2,090.0
Cash held on behalf of brokerage clients	94,568.9	65,303.5	58,947.0	86,062.1
Cash and bank balances	45,230.0	27,026.1	28,200.6	35,255.1
Total current assets	335,533.4	313,051.2	303,550.3	379,345.8
Total assets	401,450.4	381,482.5	368,665.9	445,442.3

SUMMARY

	As at 31 December			As at 31 March	
	2016	2017	2018	2019	
				unaudited, reviewed	
	(RMB in millions)				
EQUITY AND LIABILITIES					
<i>Non-current liabilities</i>					
Long-term bonds	49,947.8	55,600.8	38,046.1	42,318.3	
Long-term bank loans	—	—	1,682.9	1,645.4	
Non-current employee benefits payable	4,988.4	6,078.6	5,046.0	5,081.6	
Deferred tax liabilities	2,562.1	1,931.5	1,810.2	2,032.3	
Financial assets sold under repurchase agreements	—	1,000.0	—	—	
Financial liabilities at fair value through profit or loss	25,163.7	2,345.7	2,325.4	2,444.6	
Other payables and accruals	—	—	—	436.2	
Total non-current liabilities	82,662.0	66,956.6	48,910.6	53,958.4	
<i>Current liabilities</i>					
Short-term bank loans	460.3	—	3,015.8	1,475.2	
Short-term debt instruments issued	1,621.0	26,656.0	21,124.0	25,587.4	
Placements from other financial institutions	6,650.0	7,030.0	5,813.5	3,179.0	
Accounts payable to brokerage clients	92,728.8	67,335.5	59,492.2	90,133.8	
Employee benefits payable	2,517.1	2,668.8	2,869.0	2,657.9	
Other payables and accruals	79,671.7	62,615.2	53,793.1	75,186.0	
Contract liabilities	—	—	7.5	7.1	
Current tax liabilities	495.6	433.5	284.4	286.3	
Financial assets sold under repurchase agreements	19,463.4	23,921.5	40,095.1	56,375.9	
Financial liabilities at fair value through profit or loss	2,756.3	12,035.7	2,874.6	1,974.9	
Derivative financial liabilities	864.0	1,642.3	776.1	1,854.3	
Long-term bank loans due within one year	—	—	15.8	16.9	
Long-term bonds due within one year	25,900.0	21,597.5	24,844.6	24,819.9	
Total current liabilities	233,128.2	225,936.0	215,005.7	283,554.6	
<i>Equity</i>					
Share capital	7,162.8	7,162.8	8,251.5	8,251.5	
Retained profits	16,194.9	18,977.2	19,416.1	21,839.7	
Reserves	60,999.8	61,195.9	75,726.0	76,455.7	
Total equity attributable to shareholders of the Company	84,357.5	87,335.9	103,393.6	106,546.9	
Non-controlling interests	1,302.7	1,254.0	1,356.0	1,382.4	
Total Equity	85,660.2	88,589.9	104,749.6	107,929.3	
Total equity and liabilities	401,450.4	381,482.5	368,665.9	445,442.3	
Selected Cash Flow Data					
	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Net cash generated from/(used in) operating activities	22,019.9	(6,726.9)	28,457.8	1,645.0	7,646.3
Net cash used in investing activities	(4,462.7)	(12,268.0)	(10,488.2)	(751.0)	(594.7)
Net cash (used in)/generated from financing activities	(5,009.7)	19,089.8	(8,708.6)	(2,440.9)	6,464.8
Net increase/(decrease) in cash and cash equivalents	12,547.5	94.9	9,261.0	(1,546.9)	13,516.4

SUMMARY

		Certain significant changes in the Group's financial condition and results of operations have occurred in 2016, 2017 and 2018 and the three months ended 31 March 2019, which are set out below: ● In 2017, the consolidation of AssetMark and the changes in the accounting treatment of the Group's equity investment in Bank of Jiangsu led to increases in the Group's net investment gains, fee and commission income and investment gains compared to 2016. ● In 2018, the stock market in China experienced a prolonged downturn, which resulted in a more cautious investor sentiment and a general decline in the market demand for securities trading and other related services, and consequently led to a decrease in the Group's brokerage trading volume and investment return from equity trading and investment, among other things, and adversely affected the Group's total revenue and net profit compared to 2017. Save as set out above, there has been no significant change in the financial condition or operating results of the Group during or after the period covered by the historical financial information.
B.8	Selected key pro-forma financial information	Not applicable. This Prospectus does not include pro-forma financial information.
B.31/B.9	Where a profit forecast or estimate is made, state the figure	Not applicable.
B.31/B.10	A description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. Neither the audit report nor the review report covering the historical financial information contained in this Prospectus has been qualified.
B.32	Information about the issuer depositary receipts. Name and registered office of the issuer of the depositary receipts. Legislation under which the issuer of the depositary receipts operates and legal form which it has adopted under the legislation	The Company and Citibank, N.A. (the “Depositary”) have entered into a deposit agreement in connection with the issuance of the GDRs (the “Deposit Agreement”). The GDRs will be issued pursuant to the Deposit Agreement. The Depositary is a national banking association organised under the laws of the United States. The Depositary is an indirect wholly-owned subsidiary of

SUMMARY

		Citigroup Inc., a Delaware corporation. The Depositary was originally organised on 16 June 1812 and is now a national banking association organised under the National Bank Act of 1864 and is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 388 Greenwich Street, New York, NY 10013, United States of America.
Section C – Securities Information about the underlying shares		
C.13/C.1	A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number	Not applicable. None of the A Shares are offered under this Prospectus. The A Shares are admitted to the Shanghai Stock Exchange under the stock code 601688. In addition, the H Shares are admitted to the Hong Kong Stock Exchange under the stock code 6886. A Shares ISIN: CNE100000LQ8 H Shares ISIN: CNE100001YQ9
C.13/C.2	Currency of the securities issue	The currency of the A Shares is Renminbi.
C.13/C.3	The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have no par value	As at the date of this Prospectus, the Company's share capital is RMB8,251,500,000 divided into 6,532,454,320 A Shares, with a par value of RMB1.00 per share and which are fully paid, and 1,719,045,680 H Shares, with a par value of RMB1.00 per share and which are fully paid.
C.13/C.4	A description of the rights attached to the securities	Rights attached to the securities include: ● voting rights: to vote based on the number of voting Shares, with one Share representing one vote; ● rights to dividends: to receive dividends that the Company may distribute in the form of cash, Shares or a combination of cash and Shares; ● to lawfully request, convene, preside over, and attend General Meetings either in person or by proxy; ● to supervise, raise suggestions on or make inquiries about the operations of the Company;

SUMMARY

		● to transfer, gift or pledge the Shares in accordance with laws, administrative regulations, relevant requirements of the securities regulatory authorities in the place where the Company's Shares are listed and the Articles of Association; ● to obtain relevant information in accordance with the Articles of Association; ● upon termination or liquidation of the Company, to participate in the distribution of the remaining property of the Company in proportion to the quantity of Shares held; ● to require the Company to buy back Shares in the event of objection to resolutions of the General Meetings concerning merger or division of the Company; and ● to enjoy other rights stipulated by laws, administrative regulations, departmental rules or the Articles of Association.
C.13/C.5	A description of any restrictions on the free transferability of the securities	The A Shares represented by the Offer GDRs are freely transferable, subject to certain transfer restrictions under the relevant laws and rules in certain jurisdictions applicable to the relevant transferor or transferee.
C.13/C.6	An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded	The A Shares are not and will not be admitted to trading on any regulated market in the EEA. The A Shares are listed on and admitted to trading on the Shanghai Stock Exchange and the H Shares are listed on and admitted to trading on the Hong Kong Stock Exchange.
C.13/C.7	A description of the dividend policy.	After completion of this Offering, the Company may distribute dividends in the form of cash or by other means that the Company considers appropriate. Any proposed distribution of dividends shall be formulated by the Board and will be subject to the Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including the Group's results of operations, cash flows, financial condition, capital adequacy ratio,

SUMMARY

		payments by its subsidiaries of cash dividends to the Company, business prospects, statutory, regulatory and contractual restrictions on its declaration and payment of dividends and other factors that the Board may consider important. According to the applicable PRC laws and its Articles of Association, the Company will pay dividends out of its profit after tax only after it has made certain allocations as required. Furthermore, as required by the CSRC, as a securities firm, the Company is not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in its distributable profits. Its Articles of Association require the Company to distribute cash dividends in any three consecutive fiscal years in an amount equal to at least 30% of the average annual distributable profits in the same period if there are no significant investment or capital expenditure plans. After completion of this Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years. To the extent that dividends are declared and paid by the Company in the future, Holders of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreement.
Information about the global depositary receipts		
C.14/C.1	A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number	This Prospectus relates to the offering of up to 82,515,000 GDRs (including any GDRs issued pursuant to the over-allotment option (the “Over-allotment GDRs”)) representing A Shares (the “Offer GDRs”) with one GDR representing an interest in ten A Shares registered in the name of the Depositary.

SUMMARY

		The GDRs will be evidenced by a master global depositary receipt certificate (the “Master GDR Certificate”) issued by the Depositary pursuant to the Deposit Agreement. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to Holders in exchange for interests in the GDRs represented by the Master GDR Certificate. Application will be made for the GDRs to be admitted to listing on the standard segment of the official list maintained by the United Kingdom Financial Conduct Authority (the “Official List”) and to trading on the main market for listed securities of the London Stock Exchange through the Shanghai-London Stock Connect segment of the main market for listed securities (the “Main Market”). The security identification numbers of the GDRs offered hereby are as follows: GDR ISIN: US44331T1043 GDR Common Code: 190823466 GDR CUSIP: 44331T104 GDR SEDOL: BGR9NW4 London Stock Exchange trading symbol: HTSC
C.14/C.2	Currency of the securities issue	The currency of the GDRs is US Dollars.
C.14/C.4	A description of the rights attached to the securities	Pursuant to the Deposit Agreement and the Terms and Conditions of the GDRs, holders of GDRs (“Holder” is the person registered as the holder on the books of the Depositary maintained for such purpose) will, amongst other things, be entitled to: ● the right to withdraw the Deposited Shares (as defined therein) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares; ● the right to receive payment (in US Dollars, if practicable) from the Depositary of an amount equal to the cash dividends or other cash distributions received by the Depositary from the Company in respect of the Deposited Shares;

SUMMARY

		● the right to receive from the Depositary additional GDRs representing additional A Shares received by the Depositary from the Company by way of dividend or free distribution (or if the issuance of additional GDRs is deemed by the Depositary to be unlawful or not operationally practicable or subject to any tax or other governmental charges which the Depositary is obligated to withhold, or if the distribution of the A Shares and the GDRs representing such A Shares must be registered under the Securities Act or other laws, the net proceeds (in US Dollars, if practicable) of the sale of such A Shares); ● the right to receive from the Depositary any dividend or distribution in the form of property other than A Shares or cash received by the Depositary from the Company (or if such distribution is deemed by the Depositary to be unlawful or not reasonably practicable, the net proceeds (in US Dollars, if practicable) of the sale of such property); ● the right to request the Depositary to exercise subscription or similar rights made available by the Company to holders of A Shares (or if such process is deemed by the Depositary to be unlawful or not reasonably practicable, the right to receive the net proceeds (in US Dollars, if practicable) of the sale of the relevant rights or the sale of the assets resulting from the exercise of such rights); ● the right to instruct the Depositary regarding the exercise of any voting rights notified by the Company to the Depositary, subject to conditions; and ● the right to receive from the Depositary copies received by the Depositary of notices provided by the Company to holders of A Shares as well as any other material provided by the Company to the Depositary in connection therewith, in each case subject to applicable law, and the detailed terms set out in the Terms and Conditions of the GDRs (as endorsed on each GDR certificate) and the Master GDR Certificate.

SUMMARY

C.14/C.5	A description of any restrictions on the free transferability of the securities	Upon admission to the standard segment of the Official List of the United Kingdom Financial Conduct Authority and to trading on the Shanghai-London Stock Connect segment of the London Stock Exchange's (the "LSE") Main Market ("Admission"), the GDRs will be freely transferable, subject to certain selling restrictions under the relevant laws in certain jurisdictions applicable to the relevant transferor or transferee, restrictions under the "Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange" (for trial implementation) (关于上海证券交易所与伦敦证券交易所互联互通存托凭证业务的监管规定 (试行)) published by the CSRC on 12 October 2018 (the "DR Provisions") and restrictions resulting from the fact that Company is a PRC securities firm, which are described below. Pursuant to the DR Provisions, GDRs subscribed for by investors in the Offering may not be redeemed within 120 days following the date of Admission. Therefore, for such period, GDR holders will not be able to sell their GDRs by instructing a designated broker to redeem their GDRs and sell the underlying A Shares on the Shanghai Stock Exchange and will only be able to sell their GDRs through the IOB of the London Stock Exchange or another legitimate trading venue. The DR Provisions also restrict transfers of GDRs by the Company's controlling shareholder, actual controller or entities under its control for a period of 36 months from Admission (noting that none of the Company's existing major shareholders is considered a controlling shareholder for such purposes). In addition, investors should be aware that pursuant to the DR Provisions, the aggregate holding of a single overseas investor of the equities of the Company (including the A Shares, H Shares and GDRs, whether held directly or indirectly) shall not exceed 10% of the total outstanding shares of the Company. In the event an overseas investor's holding of equities exceeds such limit, such investor is required to liquidate the excess portion within five trading days. Furthermore, the DR Provisions also

SUMMARY

		require that the aggregate holdings of A Shares of all overseas investors in the Company shall not exceed 30% of the total outstanding shares of the Company. In the event the 30% limit is exceeded, the CSRC may require overseas investors to liquidate their holdings (in reverse chronological order of when such holdings were acquired). The foregoing restrictions do not apply to overseas investors' strategic investments as defined and regulated by the Measures for the Administration of Strategic Investment in Listed Companies by Foreign Investors (外国投资者对上市公司战略投资管理办法). Furthermore, as the Company is a PRC securities firm, it is also subject to ownership restrictions. In particular, prior approval by the CSRC is required for any person to hold, directly or indirectly, 5% or more of the equity interest in the Company (and if such approval is not obtained, the relevant equity interest will shall have no voting power, and the holder may be subject to CSRC sanctions, such as mandatory rectification, fines and/or confiscation of related gains) and a person holding 5% or more of the total equity interest of the Company will be subject to a 36 month lock-up period upon its acquisition of such equity interest in the Company. Each purchaser of GDRs, by accepting delivery of this Prospectus, will be deemed to make certain representations to ensure compliance with the applicable securities laws of the United States.
C.14	Describe the exercise of and benefit from the rights attaching to the underlying shares, in particular voting rights, the conditions on which the issuer of the depositary receipts may exercise such rights, and measures envisaged to obtain the instructions of the depositary receipt holders—and the right to share in profits and any liquidations surplus which are not passed on to the holder of the depositary receipt.	The Company will notify the Depositary of any meeting at which the holders of A Shares are entitled to vote, or of solicitation of consents or proxies from holders of A Shares or other Deposited Property. As soon as practicable after receipt from the Company of such notice, the Depositary shall fix the record date (which shall be as close as possible to the corresponding record date set by the Company) in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing and not prohibited by applicable law, and at the Company's expense, distribute to Holders as at the record date: (a) such notice of meeting or solicitation of consent or proxy as well as any other material provided by the Company to the Depositary in connection therewith; (b) a statement

SUMMARY

		that the Holders at the close of business in New York on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Articles of Association and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the A Shares or other Deposited Property represented by such Holder's GDRs; and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given to the Depositary only in respect of a number of GDRs representing an integral number of A Shares or other Deposited Property. Subject to applicable law, the provisions of the Deposit Agreement, the Conditions, the Articles of Association and the provisions of or governing the Deposited Property, if the Depositary has received voting instructions from a Holder as at the GDR Record Date to vote the Deposited Property on or before the date specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted by PRC law and practice, to vote or cause the Custodian to vote the Shares and/or other Deposited Property represented by such Holder's GDRs for which timely and valid voting instructions have been received in the manner so instructed by such Holders. A Holder of GDRs also has the right to share in profits of the Company and to receive the proceeds of any liquidation surplus. Payments of cash dividends and other amounts (including cash distributions) in relation to the GDRs will be made by the Depositary through Euroclear and Clearstream, Luxembourg on behalf of persons entitled thereto, upon receipt of funds therefor from the Company, net of the Depositary's fees, taxes, duties and charges.
	Description of the bank or other guarantee attached to the depositary receipt and intended to underwrite the issuer's obligations	There is no bank or other guarantee attached to the GDRs.

SUMMARY

Section D – Risks		
D.4/D.2	Key information on the key risks of issuer of the underlying shares.	Risks related to the Group's business and industry ● General economic, geopolitical and market conditions could materially and adversely affect the Group's business. As an integrated financial group, the Group's business is largely affected by conditions in the global and PRC financial markets, and geopolitical and economic conditions. The Group's business, financial condition and results of operations are directly affected by the inherent risks associated with the PRC securities markets, and also subject to general economic and political conditions. ● The Group is subject to extensive and evolving regulatory requirements, non-compliance with, or changes in, which may affect its financial condition, results of operations and prospects. As a participant in the financial services industry, the Group is subject to extensive regulations in China, Hong Kong, the United States and other relevant countries and regions. Relevant regulators in these jurisdictions limit the Group's business activities by imposing capital requirements, limiting the types of products and services it may offer and restricting the types of securities it may invest in. ● Government measures for stabilising the PRC stock market and involvement by market participants in these measures could increase the Group's exposure to market and other risks. PRC government measures to stabilise the stock market and restore investor confidence could materially and adversely affect the Group's business, financial condition, results of operations and prospects. The Group is unable to predict the long-term impact of the measures on its operations. There is also no assurance that the PRC government will not introduce any additional measures to stabilise the stock market in the future.

SUMMARY

		● The PRC securities industry is highly competitive. Some of the Group's competitors may have certain competitive advantages over it, including greater financial resources, stronger brand recognition, broader product and service offerings and a branch network with wider geographic coverage. They may also have more experience with a broader range of services and more complex financial products than the Group. Risks related to the PRC ● Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for the Group's services and materially and adversely affect its competitive position. A substantial majority of the Group's assets are located in China, and a substantial majority of its revenue is derived from its businesses in China. Accordingly, the Group's financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in China. ● The PRC legal system has inherent uncertainties that could limit the legal protection available to prospective investors and uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on the Group. The uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Group and investors.
D.5/D.3	Key information on the key risks that are specific to the securities	● There has been no prior public trading market for the GDRs and an active trading market may not develop or be sustained in the future. ● The share prices of publicly traded companies can be highly volatile. ● Future sales of GDRs, A Shares or H Shares could depress the market price of the GDRs.

SUMMARY

		● The Company's ability to pay dividends in the future depends, among other things, on the Group's financial performance and capital requirements and is therefore not guaranteed. ● Future issues of Shares may dilute the holdings of shareholders and/or GDR holders and GDR holders may not be able to benefit from assured entitlements in any future spin-off of any part of the Group. ● Following the Offering, holders of A Shares may not be able to deposit the A Shares in the Company's GDR facility in order to receive (or sell) GDRs, and changes in regulatory policy in the PRC with respect to the placement and circulation of the A Shares outside the PRC in the form of GDRs or otherwise may negatively affect the market for the GDRs being offered. ● Voting rights with respect to the A Shares represented by the GDRs are limited by the terms of the Deposit Agreement and the relevant requirements of the laws of the PRC. ● GDR holders will not be able to redeem their GDRs and hold the underlying A Shares in their on-shore accounts or have the underlying A Shares held on their behalf by a designated broker. ● The fungibility of the GDRs and the A Shares is dependent on the availability of designated brokers. ● GDR holders will not be able to sell their GDRs by instructing a designated broker to redeem their GDRs and sell the underlying A Shares for a period of 120 days following the date of Admission or during any period when trading in the A Shares on the Shanghai Stock Exchange is suspended and this may give rise to price risk to GDR holders. ● Holders of the GDRs may be subject to exchange rate risk.
Section E – Offer		
E.1	The total net proceeds and an estimate of the total expenses	Assuming 82,515,000 GDRs are sold in the Offering (including any Over-allotment GDRs), the Company

SUMMARY

	of the issue/ offer, including estimated expenses charged to the investor by the issuer or the offeror	expects to receive gross proceeds of between approximately US\$1,650.3 million and US\$2,021.6 million (assuming the Offer Price is set at either the bottom or the top of the Offer Price Range) and net proceeds of between approximately US\$1,610.0 million and US\$1,973.4 million (assuming the Offer Price is set at either the bottom or the top of the Offer Price Range) after deducting the total fees (including underwriting commissions, assuming the discretionary fee is paid in full), costs and expenses payable by the Company in connection with the Offering of between approximately US\$40.3 million and US\$48.2 million (assuming the Offer Price is set at either the bottom or the top of the Offer Price Range) (inclusive of VAT).
E.2a	Reasons for the offer, use of proceeds, estimated net amount of the proceeds	The Company believes the Offering and the Admission will help enhance the Group's international profile, support its global expansion, and provide an additional source of capital to improve its core competitiveness. The Company intends to use the net proceeds received from the Offering as follows: i. At least 60% or more, representing a majority of the net proceeds, would be used to support the Group's organic and inorganic growth of international businesses and expand overseas footprint by: ● strengthening the capital position of the Company's Hong Kong subsidiary, further developing the Group's cross-border investment banking business, cross-border equity derivatives business, overseas wealth management business and structured finance business (the scalability of which is positively correlated with capital level), and deploying capital to build additional infrastructure and recruit talents with expertise; ● gradually developing businesses and opportunistically making acquisitions, minority investment and/or forming partnerships in the US and EU which would align with the Group's corporate strategies and help achieve synergies

SUMMARY

		with its domestic business and capitalising on opportunities in investment banking, asset management and wealth management businesses in these markets to establish and strengthen the Group's international business capabilities; ii. Approximately 30% of the net proceeds would be used to continuously invest in and further strengthen the Group's current key business segments, including: ● supporting the systematic transformation and upgrade of wealth management to serve customers' evolving needs and improve the quality of customer experience both online and offline; ● building the core competence of institutional services to provide full life-cycle services to corporate and institutional clients; ● enhancing capabilities of asset acquisition, asset pricing and product development and innovation for investment management business; ● further developing IT and improving the efficiency in the integration of financial services and technology; and iii. Approximately 10%, or the remaining of the net proceeds, would be used for further strengthening the Group's working capital position and for general corporate purposes. If no desired opportunities are identified in any particular area as described above, the respective intended portion of the use of proceeds will be applied to general corporate purposes instead.
E.3	A description of the terms and conditions of the offer	The Offering comprises an offering of Offer GDRs to non-US persons outside the United States in "offshore transactions" as defined in, and in reliance on, Regulation S.
E.4	A description of any interest that is material to the issue/offer including conflicting interests	There are no interests, including conflicting interests, that are material to the Offering.

SUMMARY

E.5	Name of the person or entity offering to sell the security. Lock-up agreements: the parties involved; and indication of the period of the lock-up	The Company has agreed that neither it nor any member of the Group, will during a period from the date hereof to and including 180 days from the date of Admission without the prior written consent of J.P. Morgan and Morgan Stanley: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any A Shares, any GDRs or other shares of the Company, or any securities convertible into or exercisable or exchangeable for A Shares, GDRs or other shares of the Company; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any A Shares, any GDRs or other shares of the Company, (whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares, GDRs or other securities, in cash or otherwise); or (iii) publicly announce such an intention to effect any such transaction. Save that the lock-up arrangements described above shall not apply to (i) the issue of Shares as part of the Offering or the Over-Allotment Option, or the sale of GDRs pursuant to the Offering or the Over-Allotment Option or (ii) the issue of any Shares or GDRs or the purchase and sale of any Shares or GDRs or the grant of any option, right, warrant or contract to purchase Shares or GDRs, in each case in connection with any employee or management stock option or purchase scheme.
E.6	The amount and percentage of immediate dilution resulting from the offer. In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer	Assuming 825,150,000 new A Shares are issued (to be represented by the GDRs) pursuant to the Offering, existing Shareholders will experience dilution of 9.1%.

SUMMARY

E.7	Estimated expenses charged to the investor by the issuer or the offeror	Not applicable. Investors will not be charged any expenses by the Company or the Joint Bookrunners. As described in the terms and conditions of the GDRs, the Depositary will be entitled to charge certain fees to the holders of the GDRs.

RISK FACTORS

An investment in the Offer GDRs involves a high degree of risk. Accordingly, prospective investors should carefully consider, amongst other things, the risks described below, which address the existing and future material risks to the Group's businesses and industry and to the Offer GDRs, as well as the detailed information set out elsewhere in this Prospectus, and reach their own views before making an investment decision. The risks and uncertainties described below represent the risks inherent in investing in the Offer GDRs but are not the only risks and uncertainties the Group faces. Additional risks and uncertainties not presently known to the Group, or that the Group currently believes are immaterial, could also impair the Group's business operations. If any of the following risks actually materialises, the Group's business, results of operations, financial condition or prospects could be materially adversely affected. If that were to happen, the trading price of the Offer GDRs could decline and investors may lose all or part of their investment.

Prospective investors should note that the risks relating to the Group, its industry and the Offer GDRs summarised in the section of this Prospectus headed "Summary" are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Offer GDRs. However, as the risks that the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this Prospectus headed "Summary" but also, among other things, the risks and uncertainties described below. Various statements in this Prospectus, including the following risk factors, may constitute forward-looking statements as further described in the section of this Prospectus entitled "Notices to Certain Investors".

The order in which the following risk factors are presented does not necessarily reflect the likelihood of their occurrence or the relative magnitude of their potential material adverse effect on the Group's business, results of operations, financial condition and/or prospects or the market price of the Offer GDRs.

Risks related to the Group's business and industry

General economic, geopolitical and market conditions could materially and adversely affect the Group's business.

As an integrated financial group, the Group's business is largely affected by conditions in the global and PRC financial markets, and geopolitical and economic conditions. A substantial majority of the Group's revenue is derived from the securities markets in China. As a result, the Group's business, financial condition and results of operations are directly affected by the inherent risks associated with the PRC securities markets, such as market volatility, fluctuations in the trading volume and the debt repayment capacity or perceived creditworthiness of the securities industry. The Group's business is also subject to general economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, geopolitical factors affecting China and other countries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates. For instance, the unfavourable economic and financial conditions globally, such as financial instability in the US and the imposition of new bilateral tariffs between China and the US have also had a material impact on the market conditions in China and may affect the Group's results and financial conditions. Starting in April 2018, the United States imposed tariffs on various categories of imports from China, and the PRC responded with similarly sized tariffs on United States' products. The amicable resolution of such trade tensions remains

RISK FACTORS

elusive, and the lasting impact that such trade tensions may have on the PRC economy and the PRC securities industry remain uncertain.

The PRC securities industry and the Group's results of operations were affected by the monetary policies and inflation in the PRC and the volatility in the PRC securities markets. For example, the A share market in China experienced a trading volume decline in 2018. The Shanghai and Shenzhen A share market recorded an accumulative stock trading volume of RMB89.7 trillion in 2018, with an average daily trading volume of RMB368.9 billion, representing a significant decrease of 19.5% as compared to that of 2017. Accordingly, the Group's securities brokerage trading volume and fee and commission income from securities brokerage as well as net investment gains significantly decreased in 2018.

The Group's business, financial condition and results of operations may be adversely affected by the general economic, geopolitical and market conditions in many ways, including, among other things:

- The Group's wealth management business heavily depends on trading volumes and market performance. Unfavourable economic, geopolitical and market conditions can adversely affect investor sentiment and investment and trading activities, resulting in reduced brokerage fee and commission income. Adverse market conditions will also negatively impact the value of the customers' investment portfolio, which may result in a loss of customer confidence in the Group and even reputational harm.
- The Group's institutional services business mainly includes investment banking, institutional investor services, and investment and trading, for various types of enterprises and financial institutions, which has been and may continue to be affected by market conditions. Unfavourable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of M&A and fund-raising transactions, which may have a material adverse effect on the revenue and profitability of the Group's investment banking business. In addition, the Group has net long trading positions in various equity and fixed-income securities as part of its investment and trading business. As a substantial portion of these financial instruments is marked to market, declines in fair values could directly impact the Group's profit and capital position, unless the Group has effectively hedged its exposures to such declines. However, it may not be possible or economical for the Group to entirely hedge such exposures. Sudden declines and significant volatility in the asset prices may cause the Group to incur significant losses or record significant unrealised losses.
- The Group's investment management business mainly consists of securities firm asset management, private equity fund management and mutual fund management. Under its investment management business, the Group receives asset management fees based on the value of its clients' portfolios or their assets under investment accounts that it manages. In addition, the Group also earns performance fees on certain asset management schemes. Market volatility and adverse economic conditions may reduce the Group's AUM, and affect the performance of the assets or funds it manages, which could adversely affect its ability to receive management fees or performance fees.
- The Group engages in the operation of international business, mainly consisting of investment banking, private wealth management and retail brokerage, research and equity

RISK FACTORS

sales, FICC, cross-border and structured finance, equity derivatives, and asset management business through Huatai Financial Holdings and AssetMark, namely the Company's subsidiaries in Hong Kong and the United States. The Group's international business subjects it to risks inherent in conducting business internationally, such as economic uncertainties and recessions in overseas markets, more stringent regulatory requirements and unpredictability in the local political environment, among other things, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is subject to extensive and evolving regulatory requirements, non-compliance with, or changes in, which may adversely affect its financial condition, results of operations and prospects.

As a participant in the financial services industry, the Group is subject to extensive regulations in China, Hong Kong, the United States and other relevant countries and regions. Relevant regulators in these jurisdictions limit the Group's business activities by imposing capital requirements, limiting the types of products and services it may offer and restricting the types of securities in which it may invest.

The relevant regulatory authorities conduct inspections, examinations and inquiries in respect of the Group's compliance with the relevant regulatory requirements.

Failure to comply with the applicable regulatory requirements could result in sanctions, suspensions, fines, penalties or other disciplinary actions, which could have a material adverse effect on its business, financial condition and results of operations.

In 2016, 2017 and 2018 and the three months ended 31 March 2019, the Company and its subsidiaries and their employees were involved in a number of non-compliance incidents and regulatory investigations, and received warnings, downgrades of regulatory ratings or penalties from the relevant regulatory authorities. For example, in August 2015, the Company received an investigation notice from the CSRC with respect to suspected non-compliances including failures to inspect customers' identity and perform know-your-client procedures in accordance with relevant rules. In September 2015 and November 2016, the Company received the investigation results and determination from the CSRC that it was found to have failed to effectively manage the third-party trading terminal software connected to the Group's systems through software certification or effective control and failed to sufficiently know its customers' identity. The CSRC ordered the Company to rectify accordingly and confiscated RMB18.2 million from the its income and imposed an additional fine of RMB54.7 million, both of which were recorded into the Group's profit and loss in 2015. This also led to a downgrade of the Company's regulatory rating in 2016 from "AA" to "BBB", which subjected the Group to a higher payment ratio for the securities investor protection fund mandated by PRC laws and more stringent capital adequacy and risk control indicator requirements, among other things. In addition, in September 2018, the Company's Hong Kong subsidiary, was reprimanded and fined HK\$0.8 million by the SFC for non-compliance with the short selling requirements which occurred in 2015. The Group has implemented remedial measures in response to the foregoing non-compliances and has not received any objection or follow-up actions from the relevant regulatory authorities. In 2016, 2017 and 2018 and the three months ended 31 March 2019, the Group recorded an aggregate amount of regulatory fines of RMB0.3 million, RMB1.3 million, RMB5.4 million and RMB0.2 million, respectively. The fines, other than those incurred in the aforementioned non-compliance incidents, were primarily incurred in connection with anti-money laundering inspections on the Group and its branches by the PBOC and its relevant local offices. There can be no assurance that the Group will not be involved in any non-compliance or subject to regulatory penalties that would have a significant impact on the Group in the future.

RISK FACTORS

Moreover, the securities industry is a highly regulated industry and relevant rules and regulations could be changed from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of existing rules and regulations may impact the Group's business strategies and prospects. These could limit the Group's activities in the future, significantly increase the cost of regulatory compliance, reduce the Group's revenue, or affect the Group's ability to operate its businesses. There are certain regulatory changes currently being contemplated in respect of the PRC securities industry. For example, the CSRC published a consultation draft of the Rules on Administration of Equity Interests in Securities Firms (证券公司股权管理规定) for public comments on 30 March 2018, which proposes to impose additional obligations on securities firms regarding the management of shareholders as well as changes in and transfer of the share capital of securities firms. In another instance, the deputy director of the CSRC announced on an unofficial forum in November 2018 that the CSRC would continue to reform the IPO approval regime in the PRC and may explore the possibility of a disclosure-based IPO approval process in the future. There can be no assurance that the regulatory changes to be put into effect would not materially and adversely affect the Group's business and financial condition.

A downgrade in the Company's regulatory rating may adversely affect its business operations and prospects.

Securities firms in China, including the Company, are subject to a regulatory rating regime adopted by the CSRC, or the China Securities Regulatory Commission. The CSRC is a regulatory body authorised by the State Council to regulate securities and futures activities of securities firms in China. Under the regulatory rating regime, securities firms are classified into different classes and grades based on their risk management capabilities, market positions and compliance status, and they are subject to different risk management standards, risk capital reserve ratio and frequency of regulatory inspection, as well as approval processes for new business or business outlet. A regulatory rating downgrade may make a securities firm ineligible for conducting certain new businesses or obtaining business permits or approvals for its businesses or cause it to be subject to a higher risk capital reserve ratio or a higher payment ratio for the securities investor protection fund.

The Company was among a few securities firms that received an "AA" grade in regulatory rating (the highest rating attained by any PRC securities firm so far) from the CSRC for six consecutive years from 2010 to 2015. However, in 2016, the Company's regulatory rating was lowered to "BBB" mainly due to a non-compliance with the CSRC's know-your-client requirements, which subjected the Group to a higher payment ratio for the securities investor protection fund mandated by PRC laws and more stringent capital adequacy and risk control indicator requirements, among other things. Such regulatory rating was restored to an "AA" grade in 2017 and the Group maintained its "AA" grade in 2018. However, there can be no assurance that the CSRC will not lower the Company's regulatory rating again in the future, which may adversely affect its business operations and prospects.

Failure to meet the capital and other risk control measures requirements in China will adversely affect the Group's results of operations, financial condition and prospects.

The Group is subject to minimum capital and other requirements under the Measures for the Risk Control Indexes of Securities Firms (《证券公司风险控制指标管理办法》) in China. As at 31 December 2016, 2017 and 2018 and 31 March 2019 and as at the date of this Prospectus, the Company was in compliance with all capital adequacy and risk control indicator requirements, and it did not experience any difficulty in complying with such requirements in 2016, 2017 and 2018 and the three months ended 31 March 2019 and up to the date of this Prospectus, and it does not currently anticipate any

RISK FACTORS

difficulty to comply with them in the near future. However, if the Group fails to meet regulatory capital requirements in the future, the local regulatory authorities may impose penalties on the Group or limit the scope of the Group's business, which could, in turn, have a material adverse effect on the Group's financial condition and results of operations.

Government measures for stabilising the PRC stock market and involvement by market participants in these measures could increase the Group's exposure to market and other risks.

In 2015, the A share market experienced significant fluctuations, especially from mid-June to the end of August. As a result, the PRC government announced a series of measures to stabilise the stock market and restore investor confidence. In July and September 2015, along with many other PRC securities firms, the Group has contributed to the designated accounts at China Securities Finance Corporation Limited ("**China Securities Finance**") for purchasing blue-chip ETFs in China. As at 31 March 2019, the fair value of the investment position of the funds contributed by the Group to the designated account at the China Securities Finance was RMB10,535.4 million. Furthermore, the Group has undertaken not to reduce its A share proprietary trading positions below its balance as at 3 July 2015 if the SSE Composite Index is below 4,500 points. These stabilisation measures expose the Group to additional market and other risks. There is no publicly available information regarding how the Group's contributions to the designated accounts at China Securities Finance have been invested and when the Company's contributions will be returned. The Group may incur losses from these contributions due to future disposal or impairment and its financial position may fluctuate as a result of revaluation. In addition, the Group may be unable to reduce its A share proprietary trading positions or effectively hedge its exposures through short-selling to mitigate market risks in a highly volatile market.

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

The PRC securities industry is highly competitive.

According to the SAC, there were 131 registered securities firms in China as at 31 March 2019. The PRC securities industry is highly competitive and the Group faces intense competition in most of its business lines.

For its wealth management business, the Group competes primarily with other PRC securities firms in terms of pricing and the range of products and services offered. Intense price competition in recent years has led the Group to proactively reduce the Group's fee and commission rates for securities brokerage. Also see "*—The Group's wealth management business is subject to various risks and there can be no assurance that its brokerage fee and commission income can be sustained*".

For its institutional services business, the Group competes primarily with other PRC or Sino-foreign joint venture securities firms as well as PRC commercial banks in terms of brand recognition, marketing and distribution capability, service quality, financial strength and pricing. Intense competition may result in lower underwriting and advisory fees for the Group's institutional services business.

RISK FACTORS

For its investment management business, the Group competes primarily with other securities firms, fund management companies, banks, insurance companies and other financial institutions in China in terms of the range of products and services offered, pricing and quality of customer service.

Some of its competitors may have certain competitive advantages over the Group, including greater financial resources, stronger brand recognition, broader product and service offerings and a branch network with wider geographic coverage. They may also have more experience with a broader range of services and more complex financial products than the Group.

Meanwhile, with China taking steps to open up its financial industry and ease limits on foreign stakes in securities firms, new competitors may enter into the securities industry, which could further intensify the market competition. As a result, the Group's business, financial condition and results of operations may be materially and adversely affected.

The Group's wealth management business is subject to various risks and there can be no assurance that its brokerage fee and commission income can be sustained.

Wealth management revenue represents a significant portion of the Group's revenue. The Group's wealth management business is significantly affected by external factors, such as market conditions, regulatory policies, investor confidence and general economic conditions, all of which are beyond the Group's control. For example, the stock market in China experienced a sharp decline in 2018. Accordingly, both of the Group's securities brokerage trading volume and fee and commission income from securities brokerage significantly decreased in 2018. There can be no assurance that such unfavourable economic and market conditions will not recur in the future.

Market competition is another key factor affecting the Group's wealth management business. The Group monitors its product pricing in relation to competitors and adjusts commission rates and other fee structures to enhance its competitiveness. In light of the decreasing brokerage fee and commission rate in the PRC securities market, the Group has adopted cost reduction measures and proactively lowered its brokerage fee and commission rate to expand customer base and gain market share. Some of the Group's competitors also launched online brokerage services in recent years, which have caused them to continue to lower their brokerage commission rates. If an increasing number of discount brokers and Internet companies seek to enter and expand the online brokerage and wealth management business, the brokerage fee and commission rate in the industry may further decrease, which could adversely affect the Group's price competitiveness.

The Group also faces pressure to maintain its customer base and attract new customers. There can be no assurance that the Group will be able to continue to maintain or grow its customer base. If the Group is unable to address the needs of its customers by maintaining high-quality customer service, continuing product innovation, providing value-added services, or if the Group otherwise fails to meet its customers' demands or expectations, it may lose its existing customers to its competitors or fail to attract new customers. As a result, the Group's business, financial condition and results of operations may be adversely affected.

In addition to its own asset management products, the Group also distributes, through its branch network and online platform, financial products developed by third-party financial institutions, such as mutual fund management companies, private investment fund management companies and trust companies. As a third-party distributor, the Group is not liable for any investment loss or default

RISK FACTORS

directly derived from the third-party financial products it distributed to its customers. However, the Group may be subject to customer complaints and possibly litigations which could have an adverse effect on its reputation and wealth management business. In 2016, 2017 and 2018 and the three months ended 31 March 2019, the Group received some customer complaints with respect to financial products issued by third-party financial institutions, among which a large majority were resolved and closed as at the latest practicable date prior to the date of the Prospectus. Although such complaints did not result in any litigation or administrative penalties being imposed on the Group, there can be no assurance that such will not take place in the future. In addition, certain of these third-party financial products, such as trust schemes and structural OTC products, may have complex structures and involve various risks, including credit risks, interest risks, liquidity risks and other risks. The Group's risk management policies and procedures may not be fully effective in identifying the risks of these financial products, and the Group's sales employees may fail to disclose such risks to its wealth management customers, in which case, the Group's customers may invest in financial products that are too risky for their risk tolerance and investment preference, and may suffer a significant loss. This may also subject the Group to customer complaints and litigation risks. As a result, the Group's reputation, customer relationships, business and prospects will be materially and adversely affected.

The Group's business, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, its clients and counterparties.

The Group's capital-based intermediary services, including margin financing and securities lending, securities-backed lending, as well as its futures and options brokerage transactions, are subject to the risk that a client may fail to perform its payment obligations or that the value of collaterals held by the Group to secure the obligations might become inadequate. The Group also faces credit risks in its role as a counterparty in derivative contracts and other OTC transactions. Any material non-payment or non-performance by a client or counterparty could adversely affect the Group's financial position, results of operations and cash flows. Although the Group regularly reviews its credit exposure to specific clients or counterparties and to specific industries that the Group believes may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. The Group may also fail to receive all relevant information with respect to the credit risks of its clients and counterparties. There can be no assurance that the credit quality and repayment abilities of such parties would not deteriorate in the future due to significant volatilities of the market and other unforeseeable circumstances.

In its capital-based intermediary services, the Group may enforce liquidation of collateral if its clients are unable to meet their obligations as scheduled, or whose maintenance margin ratios/collateral coverage ratios are lower than the Group's minimum threshold due to fluctuations in market prices of the collateral while failing to replenish the value of collateral. In its futures and options brokerage transactions, the Group requires its clients to maintain a certain amount of account balance for their futures and options trading. The Group conducts automatic valuations for clients' account balances on each trading day, and, in the event of an insufficient account balance, the Group requires clients to replenish their account balance or liquidate their positions. Such mandatory liquidation mechanism may trigger disputes between clients and the Group, which may subject the Group to significant expenses or litigation risks.

The Group's ability to carry out forced liquidation of client positions is adversely affected by market volatilities. If the market price of securities which the Group holds as collateral decreases sharply for an extended period, the value of the collateral may fall below the value of the Group's

RISK FACTORS

margin loans when the Group is unable to liquidate clients' positions in a timely manner due to the daily price fluctuation limit on the A share stock markets, resulting in significant losses.

In addition, the Group also conducts OTC trading with its clients as a counterparty to provide them with customised products or services. Because there is no exchange or clearing agent for these contracts, the Group will be subject to the credit risk of non-performance of the counterparty.

The Group's investment banking business is dependent on its ability to identify, execute, and complete projects successfully and is subject to various risks associated with underwriting and financial advisory services.

The Group is subject to certain risks of its investment banking business, which are primarily related to the uncertainties in regulatory policies and approvals. The primary offering of securities in the PRC, especially IPOs, following offerings and certain types of M&A of listed companies, are subject to a merit-based review and approval process conducted by various regulatory authorities. The result and timing of these reviews are beyond the Group's control and may cause substantial delays to, or the termination of, securities offerings underwritten by the Group or M&A advised by it. There can be no assurance that regulatory approvals on securities offerings and M&A will be granted in a timely manner or at all in the future. A significant decline in the approval rate of the securities offerings underwritten or sponsored by the Group or M&A advised by it could harm its reputation, erode client confidence and reduce its underwriting, sponsorship and advisory fee income, because the Group receives most of its fees only after the successful completion of a securities offering or M&A transaction. In addition, since the Group may be required by its clients to underwrite securities offerings on a hard-underwriting basis, the Group would be required to purchase all of the unsubscribed portion for its own account, which may materially and adversely affect the Group's liquidity, and it may even incur losses. In 2016, 2017 and 2018 and the three months ended 31 March 2019, the Group underwrote some securities on a hard-underwriting basis and was required to purchase the unsubscribed portion for its account. This did not result in a significant impact on the Group. However, there can be no assurance that such will not happen in the future, which could materially and adversely affect the Group's financial condition.

Moreover, relevant rules and regulations could be changed from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of existing rules and regulations, may bring out new products or services or result in limitations on certain investment banking activities, which may adversely affect the Group's ability to effectively compete with other financial institutions that are not affected in the same way. The Group may be unable to maintain new products and services in a timely manner, or face difficulties in providing new products and services, or its competitive activities may be subject to limitations, and the Group may not maintain its current market share, resulting in reputation harm and income loss.

In addition, when acting as a sponsor in securities offerings, as an underwriter in debt offerings, or as a financial advisor for M&A transactions, the Group may be subject to regulatory sanctions, fines, penalties or other disciplinary actions or other legal liabilities for conducting inadequate due diligence in connection with an offering or the post-transaction compliance supervision, fraud or misconduct committed by issuers, their agents, other sponsors or the Group itself, misstatements or omissions in disclosure documents, or other illegal or improper activities that occur during the course of the underwriting or advisory process. Moreover, according to the rules in China, if the prospectus of the IPOs sponsored by the Group contains fraudulent records, misstatements or omissions which cause

RISK FACTORS

losses to investors, the Group may be required to compensate investors for their losses resulting from false disclosures in IPOs before issuers' compensation liability can be determined. The due diligence that the Group undertakes in the course of its investment banking business operations is inherently limited and may not reveal all facts that may be relevant in connection with such businesses.

The performance of the Group's investment banking business also depends on market conditions. Adverse market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten and sponsored by the Group and M&A advised by it, or may even incur losses due to securities offerings on a hard-underwriting basis. Unfavourable market conditions may also result in fewer financing and M&A activities, which may in turn materially and adversely affect the Group's revenue from the investment banking business.

Furthermore, as PRC regulatory requirements relating to the primary offering of securities continue to reform, including the reform of the A-share IPO system from an approval-based to a registration-based system, the introduction of the Sci-Tech Innovation Board and a trial co-investment requirement for the sponsors in relation to the Sci-Tech Innovation Board, securities firms in China are facing increasing challenges in terms of deal execution, client development, pricing and distribution capabilities. If the Group is unable to adjust its business strategies to meet these new challenges, it may not be able to compete effectively in the securities industry, which could in turn materially adversely affect income from its investment banking business.

The fair value measurement of certain of the Group's assets and liabilities is subject to significant uncertainties and risks and the fair value changes of such assets and liabilities may materially and adversely affect its results of operations.

The Group trades equity and fixed-income securities as well as derivative products for its own account. The Group's equity and fixed-income securities are subject to market volatility and, therefore, the results of its securities trading activities generally correlate with the performance of the PRC securities markets. The Group uses derivative instruments, such as stock index futures, to reduce the impact of price volatility on its stock trading. It also uses interest rate swaps and treasury bond futures to hedge the interest rate exposure that arises from its fixed-income trading. However, the PRC derivatives market currently does not provide sufficient means for the Group to hedge against volatile trading markets, which may make it difficult for the Group to reduce its exposure to fluctuations in prices, and the derivatives that the Group uses may not be as effective as it expects for hedging purposes. In addition, derivatives contracts that the Group enters into expose it to the risks associated with these instruments and their underlying assets, which could result in substantial losses. The secondary market for derivatives is volatile and the Group may be inexperienced in managing new products which may arise in the future or trading derivative instruments.

The performance of the Group's investment and trading activities under its institutional services business is determined by its investment decisions and judgements based on its assessment of existing and future market conditions. The Group closely monitors the market value and financial performance of its investment and trading portfolio, and actively adjusts such portfolio to allocate assets based on market conditions and internal risk management guidelines. However, the Group's investment decisions involve judgements, discretion and assumptions of relevant personnel. If the Group's decision-making process fails to minimise losses effectively while capturing gains, or its forecasts do not conform to actual changes in market conditions, or if concentration risk, including market risk and credit risks from holding particular assets or asset classes materialises, its investment and trading

RISK FACTORS

activities may not achieve the investment returns it anticipates, and it could suffer material losses, any of which would materially and adversely affect the Group's business, financial condition and results of operations.

Certain classes of the Group's financial assets are marked to market at fair value and through profit or loss. A decline in the value of such assets could result in substantial losses to the Group. The price fluctuations can be a result of changes in the financial market's assessment of the issuer's creditworthiness, delinquency and default rates and other factors, which could adversely affect the Group's financial condition and results of operations. While the Group has internal policies and procedures to limit such occurrences, these policies and procedures may not be fully effective. In addition, the Group may not have sufficient access to resources and trading counterparties to effectively implement its trading and investment risk mitigation strategies and techniques. If the Group's trading position becomes overly concentrated in a limited set of assets, asset classes, or a limited number of third parties, or if the Group fails to effectively manage its exposures through its risk management policies and procedures, the volatility of any negative impact of adverse credit exposures could be magnified, and, as a result, the Group may experience significant financial losses that could materially and adversely affect its business, financial condition and results of operations.

A significant decline in the size of the Group's AUM or poor investment performance may materially and adversely affect the Group's investment management business.

The Group receives asset management fees based on the asset size of each asset management scheme under its management. In addition, the Group may earn pre-determined performance fees for certain asset management schemes. Investment performance affects the Group's AUM and is one of the most important factors in retaining its clients and competing for new investment management businesses. Limited investment options and hedging strategies in the PRC, as well as market volatility, could negatively affect the Group's ability to provide stable returns for its clients and cause it to lose clients. Poor investment performance could adversely affect the Group's revenue and growth, because:

- existing clients might withdraw funds from the Group's investment management business, which would result in lower management fees for it;
- expansion of new clients may not be as the Group had planned;
- clients may request that the Group lower its fees for asset management services, particularly in an intensely competitive industry; and
- the Group's performance fees, which are based on a percentage of investment returns, would decline.

In addition, with the release of Guidance Opinions Concerning Standardisation of Asset Management Operations by Financial Institutions in April 2018, financial institutions in China are required to deleverage their business and reduce channel-based services. Under these tightening requirements, the Group's asset management business is facing greater regulatory scrutiny, which may result in additional downside pressure for the Group to expand its AUM.

The Group's asset management fees or market share may decrease due to increased competition from commercial banks, fund management companies, trust companies, insurance companies and other competitors such as wholly-owned subsidiaries of foreign asset managers. Market volatility, adverse economic conditions or the failure to outperform the Group's competitors or the market may reduce the

RISK FACTORS

Group's AUM or affect the performance of the assets or funds it manages, which could adversely affect the amount of management fees or performance fees received by it.

The Group contributed its own capital to the subordinated tranche of its certain collective asset management schemes, with a fair value of approximately RMB2.9 billion as at 31 December 2018. Under the Group's agreement with clients, if the investment return on the senior tranche of these schemes falls below its anticipated yield, the Group is required to compensate its clients for the shortfall up to the amount of its capital contribution to the subordinated tranche of such scheme. The asset management schemes invested by the Group using its own funds may be affected by multiple risks including market risk, credit risk, liquidity risk, policy risk and operational risk.

The Group's private equity business revenue may be materially and adversely affected by poor performance of its investment portfolios, and the timing and receipt of carried interest from the Group's investment funds are unpredictable and will contribute to the volatility of its cash flows.

The ability of the Group's private equity funds to dispose of investments is dependent primarily on the equity capital markets. The Group's private equity funds may sometimes be forced to sell securities at undesirable prices or defer sales, potentially for a considerable period of time. The Group has made, and expects to continue to make, significant capital investments in its current and future private equity funds. Contributing capital to these funds is risky, and the Group may lose some or all of the principal amount of its investments.

In addition, the Group has limited control over the operation of portfolio companies in which it has invested. The Group is subject to the risk that its portfolio companies may make business, financial or management decisions with which the Group does not agree or that the majority shareholders or the management of the company may take risks or otherwise act in a manner that does not serve the Group's interests. Furthermore, the Group's portfolio companies may fail to abide by their agreements with the Group, for which the Group has limited or no recourse. If any of the foregoing were to occur, the value of the Group's private equity investments could decrease or the Group may face investment failure, in which case its financial condition, results of operations and cash flow could be adversely affected.

Any significant adverse impact on the Group's international business operations and failure to manage the risks associated with overseas expansion could have a material adverse effect on its overall business.

The Group conducts international business operations primarily through its wholly owned subsidiary, Huatai International Financial Holdings Co., Ltd. ("**Huatai International**"). The Group also expects to further expand its international business, and may subject itself to the following risks:

- revenue fluctuation of its overseas subsidiaries from period to period in the future due to unfavourable market conditions, intensified competition, unattractive products and services, downward pressure on fees and any other inherent risks associated with the Group's international business operations;
- difficulties in managing international business operations, including complying with various regulatory and legal requirements of different jurisdictions, and obtaining approvals and necessary licences;
- differences in accounting treatment in different jurisdictions, potential adverse tax implications and foreign exchange losses;

RISK FACTORS

- inability to effectively enforce contractual or legal rights; and
- changes in laws, regulations and policies as well as political, economic and market instability or civil unrest in the relevant jurisdictions.

If the Group is unable to effectively avoid or mitigate these risks, its ability to expand its international business will be impaired, or its international business may not be able to achieve or sustain profitability, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group relies heavily on IT systems to process and record its transactions and offer online products and services.

As a pioneer in the PRC securities industry in terms of IT application, the Group's operations rely heavily on the ability of its IT systems to record and process accurately a large number of transactions across numerous and diverse markets and different business segments in a timely manner. The Group's system for processing securities transactions is highly automated. A prolonged disruption to, or failure of, the Group's information processing or communications systems would limit its ability to process transactions. This would impair the Group's ability to service its clients and execute trades on behalf of clients and for its own account, which could materially and adversely affect the Group's competitiveness, financial condition and results of operations.

The proper functioning of the Group's core IT systems, online platform, data processing system, CRM system, mobile apps, risk management and legal and compliance system and other data processing systems, together with the communication networks between the Group's headquarters and branches, are critical to its business and its ability to compete effectively. The Group has established back-up centres in Nanjing and Shenzhen to carry on principal functions in the event of a catastrophe or failure of its systems, including those caused by human error. However, there can be no assurance that the Group's operations will not be materially disrupted if any of its systems fails. In addition, if the capacity of the Group's trading system is unable to process all trading orders when the securities market experiences high volatility, the Group may be subject to client complaints, litigation or adverse effects on its reputation. Some of the Group's operation systems are operated on the hybrid cloud structure, including private cloud and third-party public cloud services. The malfunction of the cloud structure may adversely affect or even interrupt some of the Group's businesses.

The securities industry is characterised by rapidly changing technology. Online trading platforms and mobile apps are becoming increasingly popular among the Group's customers due to their convenience and user-friendliness. The Group relies heavily on technology, including its online platform, and mobile apps, to provide a wide range of wealth management services. However, the Group's technology operations are vulnerable to disruptions from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorised access and other similar events. Disruptions to, or instability of, the Group's technology or external technology that allows its customers to use its online products and services could harm the Group's business and reputation. Failure to upgrade information systems and to innovate technology capabilities to meet clients' evolving needs could also adversely affect the Group's business.

RISK FACTORS

A significant decrease in the Group's internal or external liquidity could negatively affect its business and reduce client confidence in it.

Maintaining adequate liquidity is crucial to the Group's business operations as it continues to expand its margin financing and securities lending, investment banking, investment and trading, and other business activities with substantial cash requirements. The Group meets its liquidity needs primarily through cash generated from operating activities and debt financing. A reduction in the Group's liquidity could reduce the confidence of its clients or counterparties in it, which may result in the loss of business and client accounts. The Group may have to reduce its business scale as a result of any liquidity reduction, especially with respect to its margin financing and securities lending business, and it may not be able to expand and compete effectively. This could reduce the Group's market share in the PRC securities industry. Meanwhile, the Group is required to comply with regulatory indicators with respect to liquidity by regulatory agencies and self-regulatory organisations, such as the CSRC and the SAC. If the Group fails to meet regulatory liquidity requirements in the PRC, the CSRC may also impose penalties on it or limit the scope of its business, which could, in turn, have a material adverse effect on its financial condition and results of operations. Failure to comply with the liquidity requirements by the SAC may result in disciplinary actions imposed by the SAC.

Factors that may adversely affect the Group's liquidity position include a significant increase in its capital-based intermediary services, increased regulatory capital requirements, substantial investments, loss of market or client confidence or other regulatory changes. The Group may incur negative net cash flows from operating activities in the future. When cash generated from the Group's operating activities is not sufficient to meet its liquidity or regulatory capital needs, it must seek external financing. During periods of disruption in the credit and capital markets, potential sources of external financing could be limited and the Group's borrowing costs could increase. Although the Group's management believes that it has diversified sources of external financing, including a mix of short-term and long-term debt financing instruments, such financing may not be available on commercially acceptable terms or at all in a timely manner due to unfavourable market conditions and disruptions in the credit and capital markets. In 2016, 2017 and 2018 and the three months ended 31 March 2019, the Company did not experience any material liquidity issues and it does not currently expect to experience any such issues in the near future. Nevertheless, there can be no assurance that the Company will not experience any such issues in the future.

The Group's risk management policies and procedures and internal controls, as well as the risk management tools available to it, may not fully protect it against various risks inherent in its business.

Currently, the Group follows its internal risk management framework and procedures to manage its risk exposures, primarily including market risk, credit risk, liquidity risk, compliance risk, operational risk, information technology risk and reputational risk. The Group's risk management policies, procedures and internal controls may not be adequate or effective in mitigating its risk exposures or protecting it against unidentified or unanticipated risks. In particular, some methods of managing risks are based upon observed historical market behaviour and the Group's experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by the Group's historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up to date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience data that the Group

RISK FACTORS

relies on for its risk management methods may become quickly outdated as markets and regulations continue to evolve. Deficiencies in the Group's risk management and internal control systems and procedures may adversely affect its ability to identify any reporting errors and non-compliance with rules and regulations, which may have a material adverse effect on its business, financial condition and results of operations.

The Group faces additional risks as it offers new products and services, transacts with a broader array of clients and counterparties and exposes itself to new asset classes and markets.

The Group is committed to providing new products and services in order to strengthen its leading market position in the PRC securities industry and will continually expand its product and service offerings as permitted by relevant regulatory authorities, transact with new clients not in its traditional client base and enter into new markets. These activities may expose the Group to new and increasingly challenging risks, including, but not limited to:

- the Group may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and clients;
- the Group may be subject to stricter regulatory scrutiny, increased credit risks, market risks, compliance risks and operational risks;
- the Group may suffer from significant disruption in its U.S. operations through AssetMark;
- the Group may suffer from reputational concerns arising from dealing with less sophisticated counterparties and clients;
- the Group may be unable to provide clients with adequate levels of service for its new products and services;
- the Group may be unable to hire additional qualified personnel to support the offering of a broader range of products and services;
- the Group's new products and services may not be accepted by its clients or meet its profitability expectations;
- the Group may be unable to obtain sufficient financing from internal and external sources to support its business expansion; and
- the Group may not be successful in enhancing its risk management capabilities and IT systems to identify and mitigate the risks associated with these new products and services, new clients and new markets.

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

Significant interest rate fluctuations could affect the Group's financial condition and results of operations.

The Group's exposure to interest rate risk is primarily associated with its interest income, interest expenses and fixed-income investments.

RISK FACTORS

The Group earns interest income primarily from bank deposits (including its own deposits and customer deposits), margin financing and securities lending, securities-backed lending and other financial assets held under resale agreements. Interest income from these sources is directly linked to the prevailing market interest rates. During periods of declining interest rates, the Group's interest income would generally decrease.

The Group also makes interest payments on deposits it holds on behalf of its customers, short-term commercial papers, corporate bonds and repurchase transactions as well as subordinated bonds and other debt securities. These interest expenses are directly linked to the prevailing market interest rates. During periods of rising interest rates, the Group's interest expenses and financing costs would generally increase.

In addition, the Group holds fixed-income investments. During periods of rising interest rates, market prices and the Group's investment returns on fixed-income securities will generally decrease.

Significant interest rate fluctuations could reduce the Group's interest income or returns on fixed-income investments, or increase its interest expenses, any of which could adversely affect the Group's financial condition and results of operations.

The Group is subject to PRC government controls on currency conversion and future movements in exchange rates.

While the Group generates most of its revenue in the PRC, it also offers securities products and services in Hong Kong and the United States to overseas clients. A portion of the Group's revenue, expenses and bank borrowings is denominated in Hong Kong dollars and US dollars, while the Group's functional currency is the Renminbi. As a result, fluctuations in exchange rates, particularly between the Renminbi, Hong Kong dollar and US dollar, could affect the Group's profitability and may result in foreign currency exchange losses of its foreign currency-denominated assets and liabilities.

The exchange rate of the Renminbi against the US dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions and the PRC government's fiscal and currency policies. On 30 November 2015, the Executive Board of the International Monetary Fund completed the regular five-year review of the basket of currencies that make up the Special Drawing Right (SDR) and decided that with effect from 1 October 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the US dollar, Euro, Japanese yen, and British pound. From 1 January 2017 to 31 December 2018, the trading price of Renminbi against the US dollar has fluctuated substantially. There was a 10.1% difference between the highest and lowest monthly average rate of exchange of the Renminbi against the US dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in further appreciation or depreciation of the Renminbi against the US dollar. There can be no assurance that the Renminbi will not experience significant appreciation or depreciation against the US dollar in the future. Significant increase in the value of the Renminbi against foreign currencies could reduce the value of the Group's foreign currency denominated-revenue and assets.

RISK FACTORS

The Group's operations depend on key management and professional staff and its business may suffer if the Group is unable to retain or replace them.

The success of the Group's business is dependent to a large extent on the continuity of its senior management and its ability to attract and retain key personnel who possess in-depth knowledge and understanding of the securities and financial markets. If the Group loses the services of any member of its senior management, it may not be able to execute its existing business strategy effectively or may have to change its existing business direction, which may materially and adversely affect its business prospects. These key personnel include members of the Group's mid-level management, experienced investment and trading managers, investment bankers, risk management officers, research analysts, IT specialists, licensed sponsor representatives and other personnel. Therefore, the Group devotes considerable resources to recruiting and retaining these personnel. However, the market for quality professionals is highly competitive and the Group faces increasing competition in recruiting and retaining these individuals as other securities firms and financial institutions are competing for the same pool of talent. Intense competition may require the Group to offer higher compensation and other benefits to attract and retain qualified professionals, which could materially and adversely affect its financial condition and results of operations. As a result, the Group may be unable to attract or retain these personnel to achieve its business objectives and the failure to do so could severely disrupt its business and prospects.

The Group has pursued, and may in the future pursue, mergers and acquisitions or joint ventures and other transactions that could present unforeseen integration obstacles or costs and may not enhance its business as it expects.

The Group has, in the past, pursued mergers and acquisitions, joint ventures and other transactions aimed at expanding the geographic scope and scale of its operations. Acquisitions and joint ventures involve a number of risks, and present financial, managerial and operational challenges, including potential disruption of the Group's ongoing business and distraction of management, difficulties with integrating IT, financial and human resources systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of its operations.

If the Group makes acquisitions or forms joint ventures, there can be no assurance that it will be able to generate expected margins or cash flows, or to realise the anticipated benefits of such acquisitions or joint ventures, including growth or expected synergies. There can be no assurance that the Group's assessments of and assumptions regarding acquisition targets and joint venture will prove to be correct, and actual developments may differ significantly from the Group's expectations. The Group may not be able to integrate acquisitions into its business or manage the joint ventures successfully, or such integration and management may require more investment than it expects, and the Group could incur or assume unknown or unanticipated liabilities or contingencies with respect to clients, employees, suppliers, government authorities or other parties, which may impact its results of operations. The Group's clients may react unfavourably to its acquisition and joint venture strategy, and the Group may be exposed to additional liabilities of any acquired business or joint venture. The process of integrating businesses may be disruptive to the Group's operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in the Group's results of operations as a result of difficulties or risks, including

- unforeseen legal, regulatory, contractual and other issues;
- difficulty in standardising information and other systems;

RISK FACTORS

- difficulty in realising operating synergies;
- diversion of management's attention from the Group's day-to-day business; and
- failing to maintain the quality of services that the Group has historically provided.

In addition, future acquisitions or joint ventures may involve the issuance of additional shares of the Company, which may dilute investors' equity interest in the Company.

Changes in accounting standards, procedures or policies may materially affect the Group's financial condition and results of operations.

The financial accounting, procedures and reporting standards governing the Group's financial statements as well as their application and interpretation may change from time to time. Such changes may be beyond the Group's control, and can be difficult to predict, which, in turn, could materially impact its results of operations and financial condition. In some cases, the Group may be required to apply a new or revised standard retroactively, resulting in material changes to previously reported financial results. Any changes in accounting standards, procedures or policies may materially affect the Group's results of operations and financial condition.

Since 1 January 2018, the Group has adopted IFRS 9 *Financial Instruments*, which is applied to its financial information as at and for the year ended 31 December 2018. IFRS 9 introduces new requirements regarding, among other things, the classification and measurement of financial assets and liabilities, which also affect certain line items such as the Group's revenue. In particular, upon the adoption of the new requirements of classification and measurement and impairment in IFRS 9, available-for-sale financial assets and held-to-maturity investments are removed from, and financial assets at fair value through other comprehensive income and financial assets measured at amortised cost are introduced to, the Group's Audited Consolidated Financial Statements as at and for the year ended 31 December 2018 compared to the Audited Consolidated Financial Statements as at and for the years ended 31 December 2016 and 2017. Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 as an adjustment to the opening balance of equity as at 1 January 2018. The adoption of the new requirements in IFRS 9 would decrease the Group's opening balance of net assets by RMB70.1 million, accounting for 0.1% of the Group's net assets as at 31 December 2017, and increase the Group's opening balance of retained profits by RMB549.9 million, accounting for 2.9% of the Group's retained profits as at 31 December 2017. Meanwhile, as the Group's comparative information presented in the financial statements for periods prior to the adoption of IFRS 9 (which was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*) is not restated, the Group's financial results for the year ended 31 December 2018 are not directly comparable to those for the same period of 2017. The implementation of IFRS 9 has not resulted in any significant impact on the amounts reported in the Group's financial information according to the transition. However, there can be no assurance that future changes to the Group's accounting policies will not have a significant impact on its financial condition and results of operations.

From 1 January 2019 and onwards, the Group has adopted the new standard IFRS 16. IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. IFRS 16 primarily affects the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model leads to an increase in both assets and liabilities and to impact on the timing

RISK FACTORS

of the expense recognition in the statement of profit or loss over the period of the lease. As allowed by IFRS 16, the Group uses the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group therefore applies the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group elects the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets. The Group elects to use the modified retrospective approach for the adoption of IFRS 16 and has not restated the comparative information. At transition, for leases classified as operating lease under IAS 17, lease liabilities were remeasured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of prepaid lease payments. As disclosed in note 3 of the Interim Financial Statements, the adoption IFRS 16 increased the Group's right-of-use assets and lease liabilities by RMB725 million and RMB707 million respectively, and decreased the Group's prepaid lease payments by RMB18 million. Other than the recognition of lease liabilities and right-of-use assets, the adoption of IFRS 16 does not result in any impact on the Group's equity as at 1 January 2019. The implementation of IFRS 16 has not resulted in any significant impact on the amounts reported in the Group's financial information according to the transition.

The Group is exposed to the reputational risk, which may have a material adverse effect on its business, results of operations, and financial condition.

The Group may be exposed to fraud or other misconduct committed by its employees, representatives, agents, clients or other third parties that could subject it to financial losses and sanctions imposed by governmental authorities, as well as adversely affect its reputation.

The Group's internal control procedures are designed to monitor its operations and ensure overall compliance. However, the Group's internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions the Group takes to prevent and detect such activities may not be effective, and there can be no assurance that fraud or other misconduct will not occur in the future or that the Group will detect and prevent such fraud or misconduct in a timely manner. If such fraud or other misconduct does occur, it may cause negative publicity as a result. The Group's failure to detect and prevent fraud and other misconduct may have a material adverse effect on its business reputation, financial condition and results of operations.

In addition, as there are other financial institutions which carry similar trademarks or corporate names as those of the Group, any negative publicity involving such institutions may adversely reflect on the Group's reputation and business if the market or the Group's clients are unable to distinguish its trade marks or names from theirs.

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

The Group is required to comply with applicable anti-money laundering, and anti-terrorism laws and regulations in China, Hong Kong and the United States. These laws and regulations require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require the Group to, among other things, establish or designate an independent anti-money laundering department, establish a customer identification system in accordance with relevant rules, record the details of client activities and report suspicious transactions to relevant authorities.

RISK FACTORS

While the Group has adopted policies and procedures aimed at detecting and preventing the use of its business platforms to facilitate money laundering activities, terrorist acts and other illegal or improper activities, such policies and procedures may not completely eliminate instances in which the Group may be used by other parties to engage in money laundering and other illegal or improper activities. In the event that the Group fails to fully comply with applicable laws and regulations, the relevant government agencies may freeze its assets or impose fines or other penalties on it, which may adversely affect the Group's business, reputation, financial condition and results of operations. For example, in 2016, the Group received notice of administrative penalties from the CSRC for failing to comply with relevant regulatory requirements to inspect and verify customer identities in 2015. The resultant downgrade of its regulatory rating subjected the Group to more stringent compliance requirements, which adversely affected the Group's business, financial condition and results of operations.

The Group's business is susceptible to the operational failure of third parties.

The Group faces the risk of operational failure or termination of any of the exchanges, depositaries, clearing agents or other financial intermediaries it uses to facilitate its securities transactions. The Group has not been subject to any material operational failure of third parties in the past three years. However, any future operational failure or termination of the financial intermediaries that the Group uses could adversely affect its ability to execute transactions, service its clients and manage its exposure to various risks.

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

The Group may be subject to litigation and regulatory investigations and proceedings and may not always be successful in defending itself against such claims or proceedings.

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct, as well as protection of personal and confidential information of the Group's clients. The Group may be subject to arbitration claims or lawsuits in the ordinary course of its business. It may also be subject to inquiries, investigations, and proceedings by regulatory, self-regulatory, and other governmental agencies. Actions brought against the Group may result in settlements, injunctions, suspensions, fines, penalties or other results adverse to it that could harm its reputation. Even if the Group is successful in defending itself against these actions, the costs of such defence may be significant. In market downturns, the number of legal claims and the amount of damages sought in litigation and regulatory proceedings may increase.

From time to time, the Group has been subject to a number of legal proceedings arising from the ordinary course of its business. A significant judgement or regulatory action against the Group, or a disruption in its business arising from future adverse adjudications in proceedings against its directors, supervisors, officers or employees, would have a material adverse effect on its liquidity, business, financial condition, results of operations and prospects.

RISK FACTORS

The Group may be subject to liability and regulatory action if it is unable to protect the personal data and confidential information of its clients.

The Group is subject to various laws, regulations and rules governing the protection of the personal data and confidential information of its clients. The Group's databases contain personal data of its customers, such as name and account number, location information relating to the address and telephone numbers for the customer and account-specific information such as the date of transactions and balance. These databases are vulnerable to damage, including telecommunications and network failures, natural disasters and human acts both by individuals external to the Group's business, as well as its employees, including fraud, identity theft and other misuse of personal data. The Group routinely transmits and receives personal data and confidential information of its customers through the Internet, by email and other electronic means.

Despite the security measures that the Group has implemented, the systems may be subject to physical or electronic break-ins, cyber-attacks, computer viruses and similar disruptive problems, and third parties may have the technology or expertise to breach the security of the Group's transaction data and the Group may not be able to ensure that its vendors, service providers, counterparties or other third parties, have appropriate measures in place to protect the confidentiality of such information. In addition, there can be no assurance that the Group's employees who have access to the personal data and confidential information of its customers will not improperly use such data or information. Any security or privacy breach of these databases could expose the Group to liability, including regulatory fines or penalties, increase its expenses relating to the resolution of these breaches and the mitigation of their impact on affected individuals, harm the Group's reputation and deter customers from turning to it for their investment needs, which could have a material adverse effect on the Group's business, financial condition, financial returns and results of operations.

The Group regularly encounters potential conflicts of interest, and its failure to identify and address such conflicts of interest could adversely affect its business.

As the Group expands the scope of its business and client base, it is critical for it to be able to address potential conflicts of interest, including situations where two or more interests within the Group's business naturally exist but are in competition or conflict. The Group has extensive internal control and risk management procedures that are designed to identify and address conflicts of interest. However, it is complicated and difficult to appropriately identify and address potential conflicts of interest. Conflicts of interest may exist between: (i) the Group's different businesses; (ii) the Group and its clients; (iii) the Group's clients; (iv) the Group and its employees; or (v) the Group's clients and employees. The Group's failure to address conflicts of interest could harm its reputation and impair clients' confidence in it. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could materially and adversely affect the Group's business, financial condition, and operating results.

The Group's insurance coverage may not be adequate, which could expose it to costs and business disruption.

The Group maintains certain insurance to cover risks in business operations. See "Business Description—Insurance" for details. However, insurance companies in China generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. Consequently, the Group does not maintain sufficient business interruption insurance or key man life insurance, which are not mandatory under PRC laws. The Group believes it has obtained

RISK FACTORS

a prudent amount of insurance for the insurable risks relating to its business. However, there is no guarantee that the insurance policies the Group maintains are sufficient to cover risks in its business operations. Any business disruption, litigation, natural disaster, or accident may cause the Group to incur substantial costs and divert its resources, and it may have no insurance to cover such losses. As a result, the Group's business, financial condition, and results of operations could be materially and adversely affected.

Risks related to the PRC

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for the Group's services and materially and adversely affect its competitive position.

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

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for almost four decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasising the utilisation of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may negatively affect the Group. For example, the Group's financial condition and results of operations may be adversely affected by government policies on the securities markets in China or changes in tax regulations applicable to it. If the business environment in China deteriorates, the Group's business in China may also be materially and adversely affected.

The PRC legal system has inherent uncertainties that could limit the legal protection available to prospective investors and uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on the Group.

The Company is incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Since late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, these laws and regulations may be subject to different interpretation and inconsistently enforced. In addition, there is a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value unless the Supreme People's Court otherwise provides. These uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Group and investors.

RISK FACTORS

Investors may have limited recourse against the Company or the Company's Directors, Supervisors and Senior Management because they generally conduct their operations outside the United Kingdom.

The Company's presence outside the United Kingdom may limit the legal recourse of investors against it or its Directors, Supervisors or executive officers. The Company is incorporated under the laws of the PRC and a substantial majority of its assets and subsidiaries are located in the PRC. In addition, most of the Company's Directors, Supervisors and executive officers reside within the PRC and the assets of these Directors, Supervisors and executive officers are likely to be located within the PRC. As a result, it may not be possible to effect service of process within the United Kingdom or elsewhere outside the PRC upon the Company's Directors, Supervisors and executive officers. Moreover, the PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgements made by courts of the United Kingdom or most other western countries. As a result, recognition and enforcement in the PRC of judgements of a court in any of these jurisdictions in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible. These limitations may deprive investors of effective legal recourse for claims related to their investments in the GDRs.

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

Investments in PRC securities firms are subject to ownership restrictions. Prior approval by the CSRC is required for any person to hold, directly or indirectly, 5% or more of the equity interest in a PRC securities firm. If any person holds or controls 5% or more of the equity interest in a PRC securities firm without obtaining prior approval from the CSRC, the relevant equity interest shall have no voting power, and the holder may be subject to CSRC sanctions, such as mandatory rectification, fines and/or confiscation or related gains. In addition, the Articles of Association of the Company provides the same restriction, the violation of which, if not rectified, will prevent the relevant shares to be voted. In addition, any person holding 5% or more of the total equity interest in the Company will also be subject to certain reporting obligation to the Company and the CSRC, and will be subject to a lock up requirement by the CSRC, where it may not transfer its equity interest in the Company within 36 months upon its acquisition of such equity interest in the Company. Furthermore, the CSRC published a consultation draft of the Rules on Administration of Equity Interests in Securities Firms for public comments on 30 March 2018. The consultation draft proposes to impose, on top of current ownership restrictions, additional qualification requirements and other obligations on the shareholders, including restrictions on pledging equity interests in PRC securities firms. Current ownership restrictions and future changes in ownership restrictions imposed by the PRC government and the Articles of Association of the Company may materially and adversely affect the value of prospective investors' investment.

Risks related to the Offer GDRs

There has been no prior public trading market for the GDRs and an active trading market may not develop or be sustained in the future.

Prior to the Offering, there has been no public market for the GDRs. Furthermore, there can be no assurance that an active trading market for the GDRs will develop or be sustained after the Offering or that the price at which the GDRs will trade in public markets subsequent to the Offering will not be lower than the final Offer Price. The Company can give no assurance that an active trading market for

RISK FACTORS

the GDRs will develop or, if developed, could be sustained following the closing of the Offering. If an active trading market is not developed or maintained, the liquidity and trading price of the GDRs could be adversely affected. In addition, there can be no certainty as to the basis on which market makers will provide liquidity in the secondary market, which could negatively affect the terms on which investors are able to transact in the GDRs.

The share prices of publicly traded companies can be highly volatile.

Investors may not be able to resell their Offer GDRs at or above the Offer Price, or at all, as the market price of the Offer GDRs after the Offering may be adversely affected by factors within or outside of the Group's control, including, but not limited to, variations in the Group's results of operations, market conditions, or changes in Government regulations. Market fluctuations, as well as economic conditions, may adversely affect the market price of the GDRs. In addition, noting that the settlement of redemptions of GDRs through a designated broker (where the designated broker sells the underlying A Shares on the Shanghai Stock Exchange) may take place on either a two-day rolling basis or a three-day rolling basis (which may therefore be a slightly longer settlement cycle than the usual two-day rolling basis), price volatility may increase the risk of failed trades occurring.

In connection with the Offering, the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action and, in particular, the Stabilising Manager's ability to undertake stabilisation action depends on the agreement of deferred settlement arrangements with one or more investors. As such, there is a possibility that no stabilisation activities will be carried out in connection with the Offering, which would entail a greater risk of price volatility following the Offering.

Future sales of GDRs, A Shares or H Shares could depress the market price of the GDRs.

Sales of substantial amounts of the GDRs or the A Shares (which are listed on the Shanghai Stock Exchange) or the H Shares (which are listed on the Hong Kong Stock Exchange) following the completion of the Offering, or the perception that these sales will occur, could adversely affect the market price of the GDRs.

The Company's ability to pay dividends in the future depends, among other things, on the Group's financial performance and capital requirements and is therefore not guaranteed.

To the extent that the Company pays dividends, the distribution of dividends will be dependent upon a number of factors, including the future profit, financial position, capital requirements, statutory reserve requirements, the amount of distributable reserves, available credit of the Company and general economic conditions and other factors that the Directors deem significant from time to time. Also, the Company's ability to declare and pay cash dividends on the GDRs may be restricted by, among other things, covenants in any credit facilities that the Company may enter into in the future, the recovery of any accumulated losses in the future and provisions of PRC law. Therefore, there can be no assurance that any dividend will ever be paid, nor can there be an assurance as to the amount, if any, which will be paid in any given year, and GDR holders may not receive any return on their investment in the GDRs unless they sell their GDRs for a price greater than that which they paid for them.

RISK FACTORS

Furthermore, as a portion of the Company's business is undertaken through its subsidiaries, the Company is reliant on distributions from these companies in gathering cash flows from which to pay a dividend. A material decline in revenues generated by one or more of the Company's subsidiaries or the occurrence of a material investment by the Company in relation to any subsidiary could prevent the Company from making distributions to its shareholders and GDR holders. In addition, in the event of the insolvency, bankruptcy, liquidation, dissolution or winding-up of a subsidiary, secured and unsecured creditors of the subsidiary will have the right to be paid before any distributions are made to the Company. These factors could have a material adverse effect on the Company's ability to pay dividends to its shareholders and GDR holders.

Future issues of Shares may dilute the holdings of shareholders and/or GDR holders and GDR holders may not be able to benefit from assured entitlements in any future spin-off of any part of the Group.

In order to raise funding in the future, the Company may issue additional new Shares, including in the form of A Shares, GDRs or H Shares. Holders of the GDRs may not have any pre-emptive rights with respect to any new equity issuances by the Company. Accordingly, if and when the Company issues Shares in the future, the percentage holding of a shareholder and, indirectly, a GDR holder in the Company (and, therefore, the economic investment made by the shareholder and, indirectly, a GDR holder) will be diluted if such Shareholder or, indirectly GDR holder, does not acquire its proportional entitlement of additional new Shares or GDRs (as the case may be).

In addition, in relation to any future spin-off of any part of the Group, GDR holders may not be able to benefit from any 'assured entitlement' to the shares in the spun-off entity (either by way of a distribution in specie of shares in the spun-off entity and/or by way of a preferred application in any offering of shares in such entity) which may otherwise be available to the Company's shareholders on a pro rata basis pursuant to the operation of Practice Note 15 of the Hong Kong Stock Exchange (which applies to the Company due to the listing of its H Shares on the Hong Kong Stock Exchange).

Following the Offering, holders of A Shares may not be able to deposit the A Shares in the Company's GDR facility in order to receive (or sell) GDRs, and changes in regulatory policy in the PRC with respect to the placement and circulation of the A Shares outside the PRC in the form of GDRs or otherwise may negatively affect the market for the GDRs being offered.

Whenever the Depositary believes that the A Shares deposited with it against issuance of GDRs represent (or, upon accepting any additional A Shares for deposit, would represent) a percentage exceeding any limit established by any applicable law, directive, regulation or permit, or trigger any condition for the making of any filing, application, notification or registration or for obtaining any approval, licence or permit under any applicable law, directive or regulation, or for taking any other action, the Depositary may close its books to deposits of additional A Shares to prevent such thresholds or limits being exceeded or conditions being satisfied.

In its decision, dated 30 November 2018, the CSRC stated that the number of A Shares of the Company that may be represented by outstanding GDRs may not exceed 10% of the Company's ordinary share capital, subject to adjustment in the event of certain corporate actions. Assuming that 82,515,000 GDRs are sold in the Offering (including any over-allotment GDRs), the outstanding GDRs will represent 825,150,000 A Shares, which equates to 10% of the total number of issued and outstanding ordinary shares of the Company and therefore 100% of the number of A Shares of the Company currently permitted by the CSRC to be represented by GDRs.

RISK FACTORS

Furthermore, to the extent stabilisation is undertaken, in order to ensure there is sufficient headroom under the GDR facility, including under the cap on the number of GDRs prescribed by the CSRC (as referred to above), for the Company to issue new A Shares and sell GDRs representing such A Shares to the Stabilising Manager in order to satisfy its obligations under the Over-allotment Option (if exercised), investors and shareholders of the Company may be prevented from depositing additional A Shares into the GDR facility in order to receive (or sell) GDRs for the duration of the Stabilisation Period.

The liquidity of, and market for, the GDRs could be adversely affected in the event that the Depositary closes its books to deposits of additional A Shares.

Voting rights with respect to the A Shares represented by the GDRs are limited by the terms of the Deposit Agreement and the relevant requirements of the PRC laws.

The holders of the GDRs (in their capacity as GDR holders) will have no direct voting rights with respect to the A Shares represented by the GDRs. They will be able to exercise voting rights with respect to the A Shares represented by the GDRs only in accordance with the provisions of the terms and conditions of the GDRs and the relevant requirements of the laws of the PRC generally applicable to all shareholders of the Company. See “*Terms and Conditions of the Global Depositary Receipts*”. There are, therefore, practical limitations upon the ability of the holders of the GDRs to exercise their voting rights due to the additional procedural steps involved in communicating with them.

To exercise their voting rights, the holders of the GDRs must instruct the Depositary on how to vote the A Shares represented by the GDRs they hold. Because of these additional procedural steps involving the Depositary, the process for exercising voting rights may take longer for holders of the GDRs than for holders of the A Shares, and the Company cannot assure the holders of the GDRs that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. The GDRs for which the Depositary does not receive timely legible and clear voting instructions will not be voted and the Depositary will not exercise any discretion as to voting and will not vote or attempt to exercise the right to vote the A Shares, except pursuant to the voting instructions received from holders. However, if the Depositary receives timely voting instructions from a holder that are legible and clear but do not specify the manner in which the A Shares are to be voted, in accordance with customary market practice, the Depositary will deem such holder (unless otherwise specified in the notice distributed to holders) to have instructed the Depositary to vote in favour of the items in such voting instructions. In certain circumstances, the Depositary will represent all the A Shares underlying the GDRs regardless of voting instructions for the sole purpose of establishing a quorum at a meeting of shareholders.

The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. Holders of GDRs (in their capacity as GDR holders) will not be able to instruct the Depositary to: (i) introduce proposals for the agenda of shareholders’ meetings or request that a shareholders’ meeting be called or (ii) nominate candidates for the Board of Directors or certain other of the Company’s governance bodies. However, if holders of GDRs also hold A Shares or H Shares, they may be able to introduce proposals, request that a shareholder meeting be called or nominate candidates in their capacity as shareholders if their shareholding reaches the required threshold.

On 30 March 2018, the CSRC published for consultation draft Rules on Administration of Equity Interests in Securities Firms, which would apply to the Company and its shareholders once

RISK FACTORS

enacted. Amongst other things, the draft rules provide that the voting rights of any shareholder of a securities firm, and any director nominated by that shareholder, will be suspended if the shareholder pledges 50% or more of the shares it holds in the securities firm. It is not clear from the consultation draft whether the restriction will apply to GDR holders in a securities firm, and if so, how the restriction would be implemented for GDR holders. However, if it is determined that the restriction will apply to GDR holders, then GDR holders' voting rights may be restricted in the event that they pledge their GDRs or any A Shares or H Shares they otherwise hold in the Company.

GDR holders will not be able to redeem their GDRs and hold the underlying A Shares in their on-shore accounts or have the underlying A Shares held on their behalf by a designated broker.

Foreign investors are not generally able to hold A shares in Chinese companies pursuant to restrictions under PRC law, subject to certain limited exemptions, such as for QFIIs and RQFIIs. In addition, pursuant to the Shanghai-London Stock Connect scheme, GDR holders will not be permitted to redeem their GDRs and hold the underlying A Shares in an on-shore account (such as a QFII or RQFII account, where they have such an account) or have the underlying A Shares held on their behalf by a designated broker. GDR holders that are QFIIs and RQFIIs (or are otherwise able to hold A Shares through another exemption) that wish to hold A Shares (for example, in order to exercise any of the rights that A shareholders have but which GDR holders do not) would need to sell some or all of their GDRs (either on the London Stock Exchange (or another legitimate trading venue) or by redeeming their GDRs and selling the underlying A Shares on the Shanghai Stock Exchange) and separately buy A Shares outside of the Shanghai-London Stock Connect scheme to be held in a separate (existing or newly established) QFII or RQFII or other account.

The fungibility of the GDRs and the A Shares is dependent on the availability of designated brokers.

One of the features of the Shanghai-London Stock Connect scheme is that investors will be able to redeem their GDRs in order to sell the underlying A Shares (although, as noted above, investors will not be able to hold the underlying A Shares in their on-shore accounts or have the underlying A Shares held on their behalf by a designated broker). Pursuant to the DR Provisions, the redemption of GDRs and subsequent sale of underlying A Shares may only be facilitated by certain designated brokers. In the United Kingdom, designated brokers will be members of the London Stock Exchange designated by the Shanghai Stock Exchange who hold accounts with members of the Shanghai Stock Exchange enabling them to create or redeem GDRs by buying or selling the underlying A Shares on the Shanghai Stock Exchange (subject to quotas imposed by relevant regulators, as described below).

This mechanism is intended to provide fungibility between the GDRs and the A Shares by enabling investors or their brokers to place sell orders with designated brokers who are able to seek the best price for the security from either market.

Four designated brokers in the United Kingdom were confirmed from December 2018 to January 2019. The People's Bank of China ("PBOC") and the State Administration of Foreign Exchange ("SAFE") published the Administrative Measures on Cross-border Funds under Depositary Receipts (For Trial Implementation) (存托凭证跨境资金管理办法 (试行)) in May 2019, which requires the designated brokers to file certain documents and register with the SAFE. Pursuant to their SAFE registration each designated broker will be subject to restrictions relating to, among other things, the types of securities such designated broker can deal in (such as the A shares underlying GDRs, money market and treasury bills, and other securities as specifically approved by CSRC), as well as daily

RISK FACTORS

inventory related quotas on the maximum number and value of cash and securities held by such designated broker and foreign exchange related quotas on the cumulative net inflow of funds into the PRC in connection with the redemption and creation of GDRs executed by such designated broker (which are not expected to give rise to any material risk to GDR holders). Additional detailed rules are also expected to be published shortly jointly by the CSRC in China and the FCA in the United Kingdom, but such rules have not been published as at the date of this Prospectus. Pending publication of the additional detailed rules by the CSRC and the FCA and clarity on how such rules will be implemented in practice, as well as confirmation of the size of such quotas per designated broker, the Company expects the quotas to apply in such a way and be set at a sufficiently high level (both individually and in aggregate) that, in any case, they would be unlikely to give rise to any material risk to GDR holders or impact their ability to buy or sell GDRs through the designated brokers in the manner described above and will not impact GDR holders' ability to trade GDRs through the IOB of the London Stock Exchange. The number of designated brokers is expected to increase over time which is expected to increase competition in the market and would also result in an increase in the aggregate daily quotas.

However, there can be no guarantee that the designated brokers will provide liquidity between the London and Shanghai markets or that the number of designated brokers will increase over time and any failure to do so may restrict the ability of GDR holders to sell their GDRs through a designated broker selling the underlying A Shares to investors in China, thus limiting the available capital pool and as a result may mean GDR holders cannot obtain the highest possible price for their GDRs. In addition, designated brokers will be able to set their own pricing terms and if the number of designated brokers fails to increase, or decreases, over time, this may result in the fees payable to designated brokers becoming less competitive, potentially increasing costs for GDR holders when either buying GDRs by requesting a designated broker to buy A Shares on the Shanghai Stock Exchange and instruct the Depositary to create GDRs representing such A Shares or selling GDRs by requesting a designated broker to redeem their GDRs and sell the underlying A Shares on the Shanghai Stock Exchange.

GDR holders will not be able to sell their GDRs by instructing a designated broker to redeem their GDRs and sell the underlying A Shares for a period of 120 days following the date of Admission or during any period when trading in the A Shares on the Shanghai Stock Exchange is suspended and this may give rise to price risk to GDR holders.

The GDRs and A Shares are separate securities and there may be a price differential between the trading price of the GDRs on the London Stock Exchange and the trading price of the A Shares on the Shanghai Stock Exchange. Whilst GDR holders will not be able to redeem their GDRs and hold the underlying A Shares in their on-shore accounts or have the underlying A Shares held on their behalf by a designated broker, pursuant to the Shanghai-London Stock Connect scheme, investors will (subject to the below) be able to sell their GDRs by instructing a designated broker to redeem their GDRs and sell the underlying A Shares. However, in accordance with the CSRC's DR Provisions which apply to the Shanghai-London Stock Connect scheme, GDRs subscribed for by investors in the Offering may not be redeemed (i.e. in order to sell the underlying A Shares) within 120 days following the date of Admission.

Trading in the A Shares on the Shanghai Stock Exchange may also be suspended from time to time. The Company may apply to the Shanghai Stock Exchange for a suspension of trading in its A Shares for a number of reasons (such as where the Company forecasts that it would be difficult to

RISK FACTORS

maintain the confidentiality of any material and disclosable information, the disclosure of which would have or already has had a significant impact on the price of the A Shares). During the period of any such trading suspension, it is expected that trading in the GDRs on the London Stock Exchange will continue. However, during any such period, pursuant to the rules of the Shanghai Stock Exchange promulgated in connection with the Shanghai-London Stock Connect scheme, the Depositary will be required to prevent the redemption (or creation) of GDRs.

This may give rise to price risk to GDR holders. To the extent the trading price of the A Shares is higher than the trading price of the GDRs (taking into account that one GDR will represent ten A Shares), GDR holders may not be able to take advantage of such higher price for the 120 days following the date of Admission or during any period when trading in the A Shares on the Shanghai Stock Exchange is suspended. For such period, GDR holders will not be able to sell their GDRs by instructing a designated broker to redeem the GDRs and sell the underlying A Shares on the Shanghai Stock Exchange and GDR holders will only be able to sell their GDRs through the IOB of the London Stock Exchange or another legitimate trading venue.

Holders of the GDRs may be subject to exchange rate risk.

The GDRs are, and any dividends to be paid in respect of them will be, denominated in US Dollars. An investment in GDRs by an investor whose principal currency is not US Dollars exposes the investor to foreign currency exchange rate risk. Any depreciation of US Dollars in relation to such foreign currency will reduce the value of the investment in the GDRs or any dividends in foreign currency terms.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This Prospectus contains:

- the Group's audited consolidated financial statements as at and for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 (the "**Annual Financial Statements**") prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), which have been audited by KPMG Huazhen LLP ("**KPMG PRC**"); and
- the Group's unaudited, reviewed consolidated financial statements as at and for the three months ended 31 March 2019 (the "**Interim Financial Statements**") prepared in accordance with IAS 34 as issued by the IASB, which have been reviewed by KPMG PRC.

The Annual Financial Statements and the Interim Financial Statements are collectively referred to herein as the "**Financial Statements**".

Market Data, economic and industry data

Unless the source is otherwise stated, the market, economic and industry data in this Prospectus constitute the Group's estimates, using underlying data from independent third parties. Statistics, data, and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to the Company's business and markets in this Prospectus (together the "**Company Market Study**"), are not based on published data obtained from independent third parties or extrapolations therefrom, but rather are based upon multiple third-party sources, including (i) compiled data sheet on the asset management business by securities and futures companies of the fourth quarter of 2018 by AMAC, (ii) transaction information of the nation-wide futures market of December 2018 on the China Futures Association's website, (iii) SAC's first issue of Reports on the OTC Securities Business Information in 2019, (iv) SAC's Development Report of China's Securities Industry (2014), (v) SAC's Development Report of China's Securities Industry (2018), (vi) Analysis on the Operations of Securities Firms in 2017 of Volume 3 of SAC's internal magazine Chuan Dao in 2018, (vii) Mergermarket's China & Hong Kong M&A Trend Report 2013 and China & Hong Kong Trend Report 2018, (viii) the Annual Report of PRC Securities Investment Fund Business (2013), (ix) the compiled data sheet on the asset management business by securities and futures companies of the fourth quarter of 2018 by AMAC, (x) Rankings of the Asset Management Business in the Fourth Quarter of 2018 by AMAC, (xi) SAC's Rankings of the Operations of Securities Firms in 2017, and (xii) Analysis on the Operations of Securities Firms in 2018 of Volume 483 of SAC's internal magazine Chuan Dao.

Whilst the Directors believe that such third-party information is reliable, the Company has not independently verified such third-party information. The Company confirms that all third-party data contained in this Prospectus has been accurately reproduced and, so far as it is aware and able to ascertain from information published by that third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Prospectus, the source of such information has been identified.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Currency

In this Prospectus:

- “**Renminbi**” or “**RMB**” refers to Renminbi, the lawful currency of the PRC; and
- “**US Dollars**” or “**US\$**” refers to the lawful currency of the United States of America.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

No incorporation of website information

The contents of the websites of the Company and the Group do not form any part of this Prospectus.

Forward-looking statements

Certain statements in this Prospectus are not historical facts and are “**forward-looking**”. Forward-looking statements include statements concerning plans, objectives, goals, strategies, economic and regulatory conditions affecting the Group, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “**believe**,” “**expect**,” “**anticipate**,” “**intend**,” “**estimate**,” “**forecast**,” “**project**,” “**will**,” “**may**,” “**target**,” “**should**” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this Prospectus including, without limitation, “*Risk Factors*,” “*Business*” and “*Operating and Financial Review*”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- liquidity, capital resources and capital expenditures;
- economic outlook and industry trends;
- the impact of regulatory initiatives;
- the Group’s competitive strengths and weaknesses;
- the strengths of the Group’s competitors;
- macroeconomic outlook and industry trends;
- the impact of regulatory initiatives;
- the success of the Group’s strategy;
- the Group’s ability to meet its funding obligations and develop and maintain additional sources of financing;
- the accuracy of critical accounting judgements or estimates;

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

- the Group's ability to retain or increase market share;
- the Group's ability to procure compliance with all applicable current and future legislation; including compliance with applicable anti-money laundering, anti-bribery and anti-terrorist financing laws;
- the engagement of prudent corporate governance principles;
- technological developments and adequate protection against IT failures or attacks;
- the outcome of pending or future litigation;
- the impact of catastrophic or unforeseen events;
- changes in tax laws and regulations or opening of tax audits;
- the Group's ability to attract and retain talent; and
- the Group's success at managing the risks associated with the aforementioned factors.

The forward-looking statements in this Prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management's examination of historical operating trends, data contained in its records and other data available from third parties. Although the Company believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond its control, and the Company may not achieve or accomplish these expectations, beliefs or projections. The occurrence or non-occurrence of an assumption could cause the Company's actual financial condition and results to differ from or fail to meet expectations expressed or implied by, such forward-looking statements. In addition to these important factors and matters discussed elsewhere herein, important factors that, in the Company's view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- the macroeconomic and political environment of the PRC and those jurisdictions in which the Group operates;
- capital market volatility and developments, inflation, interest rate and exchange rate fluctuations;
- changes in the regulatory framework in which the Group operates;
- the failure of third parties to provide their services or meet their obligations;
- unforeseen court, regulatory and arbitration developments;
- developments in the jurisdictions in which the Group operates, including regime change, expropriation, terrorist attacks and armed conflict;
- changes in tax, subsidy and other incentive frameworks in the jurisdictions in which the Group operates;
- changes in industry developments and trends; and
- technological changes impacting the sectors in which the Group operates or the Group itself.

This list of important factors is not exhaustive. When reviewing forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

in light of the political, economic, social and legal environment in which the Company operates. Such forward-looking statements speak only as at the date on which they are made and are not intended to give any assurances as to future results. To the extent required by EU Regulation no. 596/2014 on Market Abuse (the “**EU Market Abuse Regulation**”), the listing rules of the FCA (the “**Listing Rules**”), the Prospectus Rules and the disclosure guidance and transparency rules of the FCA (the “**Disclosure Guidance and Transparency Rules**”), and other applicable regulations, the Company will update or revise the information in this Prospectus. Otherwise the Company undertakes no obligation to update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise and the Company assumes no other obligation to publish additional information. None of the Company, its management or the Joint Bookrunners can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments. Accordingly, prospective subscribers for the Offer GDRs should not rely on the forward-looking statements in this Prospectus and investors are strongly advised to read this Prospectus in its entirety.

All subsequent written or oral forward-looking statements attributable to the Company, or persons acting on the Company’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective subscriber for the Offer GDRs should not place reliance on these forward-looking statements and should specifically consider the factors identified in this Prospectus that could cause actual results to differ.

Service of process and enforcement of civil liabilities

The Company is a joint stock company incorporated in the PRC with limited liability, and substantially all of its assets and the Group’s assets are located outside of the United Kingdom, and all members of the Company’s board of directors are resident outside of the United Kingdom. As a result, it may not be possible to effect service of process within the United Kingdom upon the Company or any of its subsidiaries or such persons or to enforce UK court judgements obtained against them in jurisdictions outside the United Kingdom. In addition, it may be difficult to enforce, in original actions brought in courts in jurisdictions outside the United Kingdom, liabilities predicated upon UK securities laws.

The Company has been advised by its PRC legal advisors, Fangda Partners, that there is uncertainty as to whether courts of the PRC would (i) enforce judgements of English courts obtained against the Company or its Directors, Supervisors and executive officers predicated upon English law or (ii) entertain original actions brought in the courts of the PRC against the Company or its Directors, Supervisors and executive officers predicated upon English law.

THE OFFERING

The Company	Huatai Securities Co., Ltd. is a joint stock company with limited liability established pursuant to the Company Law of the People's Republic of China. The Company's registered office is located at No. 228 Middle Jiangdong Road, Nanjing, Jiangsu Province 210019, People's Republic of China.
The Offering	The Offering consists of an offering of up to 82,515,000 Offer GDRs (including any over-allotment GDRs), each representing ten A Shares. The Offer GDRs are being offered and sold to persons that are non-US persons in "offshore transactions" as defined in, and in reliance on, Regulation S. See "<i>Selling Restrictions and Transfer Restrictions</i>".
Joint Global Co-ordinators	J.P. Morgan Securities plc, Huatai Financial Holdings (Hong Kong) Limited and Morgan Stanley & Co. International plc
Joint Bookrunners	J.P. Morgan Securities plc, Huatai Financial Holdings (Hong Kong) Limited, Morgan Stanley & Co. International plc, Credit Suisse Securities (Europe) Limited and HSBC Bank plc
Offer Price	Between US\$20.00 and US\$24.50 per Offer GDR. The final Offer Price shall be determined following completion of the book-building process. The Offer Price is expected to be announced on 14 June 2019, by way of a pricing statement, which will be made available on the Company's website at www.HTSC.com.cn. See "<i>Plan of Distribution</i>".
Depository	Citibank, N.A.
Custodian	Industrial and Commercial Bank of China Limited
The GDRs	One GDR will represent ten A Shares held in a CSDC account in the name of the Depository. The GDRs will be issued by the Depository pursuant to the Deposit Agreement. The GDRs will be evidenced initially by the Master GDR Certificate, which will be issued pursuant to the Deposit Agreement. See "<i>Clearing and Settlement</i>". Following the Offering, pursuant to the Deposit Agreement, the A Shares represented by the GDRs will be held in a CSDC account in the name of the Depository for the benefit of the holders and beneficial owners of the GDRs.

THE OFFERING

The Depositary may deduct per-GDR fees and other fees, charges and expenses as well as taxes and governmental charges from dividend distributions and may otherwise assess other per-GDR fees and other fees, charges and expenses to the GDR holders. See “*Terms and Conditions of the Global Depositary Receipts—19. GDR Fees and Charges*”.

Investors should be aware that pursuant to the CSRC’s DR Provisions, GDRs subscribed for by investors in the Offering may not be redeemed within 120 days following the date of Admission. Therefore, for such period, GDR holders will not be able to sell their GDRs by instructing a designated broker to redeem their GDRs and sell the underlying A Shares on the Shanghai Stock Exchange and will only be able to sell their GDRs through the IOB of the London Stock Exchange or another legitimate trading venue. For the avoidance of doubt, during such period investors will be able to buy GDRs by requesting a designated broker to buy A Shares on the Shanghai Stock Exchange and instruct the Depositary to create GDRs representing such A Shares.

Investors should also be aware that pursuant to the CSRC’s DR Provisions the aggregate holding of a single overseas investor of the equities of the Company (including the A Shares, H Shares and GDRs, whether held directly or indirectly) shall not exceed 10% of the Company’s outstanding shares. In the event an overseas investor’s holding of equities exceeds such limit, such investor is required to liquidate the excess portion within five trading days. Furthermore, the DR Provisions also require that the aggregate holdings of A shares by all overseas investors in the Company shall not exceed 30% of the total outstanding shares of the Company. In event the 30% limit is exceeded, the CSRC may require overseas investors to liquidate their holdings (in reverse chronological order of when such holdings were acquired). The foregoing restrictions do not apply to overseas’ investors strategic investments as defined and regulated by the Measures for the Administration of Strategic Investment in Listed Companies by Foreign Investors (外国投资者对上市公司战略投资管理办法).

Over-Allotment Option

The Company has granted to J.P. Morgan an option, exercisable within 30 days after the commencement of trading of the GDRs, to purchase additional GDRs up to a

THE OFFERING

maximum of 10% of the total number of GDRs sold in the Offering at the Offer Price, solely to cover over-allotments, if any, in the Offering.

Listing and Trading

Application will be made: (i) to the FCA, in its capacity as competent authority under the FSMA, for an admission to listing of the GDRs on the standard segment of the Official List and (ii) to the London Stock Exchange, for an admission to trading of the GDRs on the Shanghai-London Stock Connect segment of the London Stock Exchange's Main Market. The Main Market of the London Stock Exchange is a regulated market in the EEA for the purposes of the Directive on Markets in Financial Instruments.

Admission to the Official List and unconditional trading in the GDRs on the London Stock Exchange through its IOB is expected to take place on or around the Closing Date. The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when issued" basis on or about 17 June 2019. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

Prior to the Offering, the A Shares are listed on the Shanghai Stock Exchange and the H Shares are listed on the Hong Kong Stock Exchange, but there has been no public market for the GDRs.

The GDRs will be evidenced by the Master GDR Certificate.

The security identification numbers of the GDRs offered hereby are as follows:

GDR ISIN: US44331T1043

GDR Common Code: 190823466

GDR CUSIP: 44331T104

GDR SEDOL: BGR9NW4

London Stock Exchange trading symbol: HTSC

Lock-Up

For a discussion of lock-up arrangements see "*Plan of Distribution—Lock-up Provisions*"

THE OFFERING

Dilution	Assuming 825,150,000 new A shares are issued pursuant to the Offering, existing Shareholders will experience dilution of 9.1%.
Use of Proceeds	For a discussion of the use of proceeds, see “ <i>Reasons for the Offer and Use of Proceeds</i> ”.
Taxation	For a discussion of certain United Kingdom and PRC tax consequences of purchasing and holding the GDRs, see “ <i>Taxation</i> ”.
Dividend Policy	GDR holders will be entitled to dividends declared, if any, in respect of any record date which falls after the date of Admission. For more details see “ <i>Dividend Policy</i> ”.
Voting Rights	The Deposit Agreement contains arrangements allowing holders of GDRs to vote the underlying A Shares in accordance with PRC law. Holders of A Shares are entitled to one vote per A Share at a shareholders’ meeting. See “ <i>Terms and Conditions of the Global Depositary Receipts</i> ”.
Settlement and Transfer	Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of Euroclear and Clearstream, Luxembourg on or around the Closing Date. The Company will apply to Euroclear and Clearstream, Luxembourg to have the GDRs accepted for clearing and settlement through the systems of Euroclear and Clearstream, Luxembourg. The Master GDR Certificate will be registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as Common Depositary for Euroclear and Clearstream, Luxembourg. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the Master GDR Certificate only through Euroclear or Clearstream, Luxembourg, as applicable. Transfers within Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. See “ <i>Clearing and Settlement</i> ”.

REASONS FOR THE OFFER AND USE OF PROCEEDS

The Company believes the Offering and the Admission will help enhance the Group's international profile, support its global expansion, and provide an additional source of capital to improve its core competitiveness.

Assuming 82,515,000 GDRs are sold in the Offering (including any Over-allotment GDRs), the Company expects to receive gross proceeds of between approximately US\$1,650.3 million and US\$2,021.6 million (assuming the Offer Price is set at either the bottom or the top of the Offer Price Range) and net proceeds of between approximately US\$1,610.0 million and US\$1,973.4 million (assuming the Offer Price is set at either the bottom or the top of the Offer Price Range), after deducting the total fees (including underwriting commissions, assuming the discretionary fee is paid in full), costs and expenses payable by the Company in connection with the Offering of between approximately US\$40.3 million and US\$48.2 million (assuming the Offer Price is set at either the bottom or the top of the Offer Price Range) (inclusive of VAT).

The Company intends to use the net proceeds received from the Offering as follows:

- i. At least 60% or more, representing a majority of the net proceeds, would be used to support the Group's organic and inorganic growth of international businesses and expand overseas footprint by:
 - strengthening the capital position of the Company's Hong Kong subsidiary, further developing the Group's cross-border investment banking business, cross-border equity derivatives business, overseas wealth management business and structured finance business (the scalability of which is positively correlated with capital level), and deploying capital to build additional infrastructure and recruit talents with expertise;
 - gradually developing businesses and opportunistically making acquisitions, minority investment and/or forming partnerships in the US and EU which would align with the Group's corporate strategies and help achieve synergies with its domestic business and capitalising on opportunities in investment banking, asset management and wealth management businesses in these markets to establish and strengthen the Group's international business capabilities;
- ii. Approximately 30% of the net proceeds would be used to continuously invest in and further strengthen current key business segments, including:
 - supporting the systematic transformation and upgrade of wealth management to serve customers' evolving needs and improve the quality of customer experience both online and offline;
 - building the core competence of institutional services to provide full life-cycle services to corporate and institutional clients;
 - enhancing capabilities of asset acquisition, asset pricing and product development and innovation for investment management business;
 - further developing IT and improving the efficiency in the integration of financial services and technology; and
- iii. Approximately 10%, or the remaining of the net proceeds, would be used for further strengthening the Group's working capital position and for general corporate purposes.

If no desired opportunities are identified in any particular area as described above, the respective intended portion of the use of proceeds will be applied to general corporate purposes instead.

REASONS FOR THE OFFER AND USE OF PROCEEDS

The foregoing use of proceeds may change in light of the Company's evolving business needs, regulatory environment and prevailing market conditions and in a way that is consistent with its business strategies and in accordance with applicable laws.

DIVIDEND POLICY

After completion of this Offering, the Company may distribute dividends in the form of cash or by other means that the Company considers appropriate. Any proposed distribution of dividends shall be formulated by the Board and will be subject to the Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including the Group's results of operations, cash flows, financial condition, capital adequacy ratio, payments by its subsidiaries of cash dividends to the Company, business prospects, statutory, regulatory and contractual restrictions on its declaration and payment of dividends and other factors that the Board may consider important.

According to the applicable PRC laws and its Articles of Association, the Company will pay dividends out of its profit after tax only after it has made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory reserve equivalent to 10% of its profit after tax, and, when the statutory reserve reaches and is maintained at or above 50% of its registered capital, no further allocations to this statutory reserve will be required;
- allocations to the general risk reserve of not less than 10% of its profit after tax, and, when the general risk reserve reaches and is maintained at or above 50% of the Company's registered capital, no further allocations to this general risk reserve will be required;
- allocations to the transaction risk reserve of not less than 10% of its profit after tax; and
- allocations, if any, to a discretionary common reserve fund that are approved by its shareholders in a Shareholders' meeting.

Furthermore, as required by the CSRC, as a securities firm, the Company is not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in its distributable profits. Its Articles of Association require the Company to distribute cash dividends in any three consecutive fiscal years in an amount equal to at least 30% of the average annual distributable profits in the same period if there are no significant investment or capital expenditure plans.

After completion of this Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

To the extent that dividends are declared and paid by the Company in the future, holders of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreement. For additional information, see *"Description of the Company's Share Capital—Rights, Preferences and Restrictions Attaching to Existing Shares—Rights to dividends"*.

CAPITALISATION AND INDEBTEDNESS

The tables below set out the Group's capitalisation and indebtedness as at 31 March 2019. This statement of capitalisation and indebtedness has been prepared under IFRS using policies which are consistent with those used in preparing the Group's financial information for each of the three years ended 31 December 2018 and the three months ended 31 March 2019 as set out in the F-pages of this Prospectus.

The capitalisation and indebtedness information as at 31 March 2019 has been extracted without material adjustment from the Group's unaudited, reviewed financial information as at 31 March 2019, as set out in the F-pages of this Prospectus.

These tables do not reflect the effect of the Offering, and should be read together with "Operating and Financial Review" and the F-pages of this Prospectus.

Long-term borrowings

	As at 31 March 2019 (unaudited, reviewed) (RMB in millions)
Long-term bonds	42,318.3
Long-term bank loans	1,645.4
Total	<u>43,963.7</u>

Capitalisation

	As at 31 March 2019 (unaudited, reviewed) (RMB in millions)
Equity	
Share capital	8,251.5
Reserves	76,455.7
Retained profits	21,839.7
Total equity attributable to shareholders of the Company	106,546.9
Non-controlling interests	1,382.4
Total Equity	<u>107,929.3</u>

On 22 April 2019, the Company publicly issued a three-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.80% to qualified investors. On 25 April 2019, the Company issued short-term debt instruments of RMB3 billion, bearing interest at 3.00%. In May 2019, the Company's wholly-owned subsidiary Pioneer Reward Limited issued offshore bonds with a principal amount of US\$500 million guaranteed by the Company, with an annual interest rate of 3.375%, to refinance the Group's bonds issued in 2014 and supplement the Group's working capital. On 27 May 2019, the Company non-publicly issued a three-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.94% to qualified investors. There has been no other material change in the Group's capitalisation and indebtedness since 31 March 2019.

INDUSTRY OVERVIEW

The Capital Markets in China

As the PRC economy grows, a multi-layered capital market system with sound structure and comprehensive functions has gradually been established. The capital market is increasingly important to the development of the national economy. According to the PBOC, the ratio of amount of financing from corporate bonds issuance and domestic equity issuance by non-financial enterprises to total amount of financing in China increased from 11.5% in 2013 to 14.7% in 2018. According to the National Bureau of Statistics, Shanghai Stock Exchange and Shenzhen Stock Exchange, the securitisation ratio, which is the total market capitalisation of the PRC stock market divided by the PRC's GDP, increased from 40.2% as at 31 December 2013 to 48.3% as at 31 December 2018. In the future, further increase of the direct financing volume and securitisation level in China will bring more development opportunities to the securities industry.

Stock market

The PRC stock market mainly includes the main boards on the Shanghai Stock Exchange and the Shenzhen Stock Exchange as well as the SME Board and the ChiNext Board on the Shenzhen Stock Exchange. The NEEQ and regional equity exchanges have also developed rapidly in recent years. As at 31 December 2018, total market capitalisation of listed companies on the Shanghai Stock Exchange and the Shenzhen Stock Exchange ranked second in the world, according to World Federation of Exchanges. The following table sets forth the total number, total market capitalisation, total amount of new equity issuance and total trading volume of listed companies on the two exchanges as at the dates or for the periods indicated:

	As at the last trading day/for the period						CAGR from 2013 to 2018 (percentage)
	2013	2014	2015	2016	2017	2018	
	(RMB in billions, except number of companies)						
Number of listed companies	2,489	2,613	2,827	3,052	3,485	3,584	7.6%
Market capitalisation	27,250.0	42,862.1	58,446.4	55,752.0	63,183.3	48,755.1	12.3%
Total amount of new equity issuance	451.5	896.9	1,776.5	2,243.0	1,609.5	1,082.8	19.1%
Total trading volume	46,352.9	73,770.8	253,296.8	126,512.8	111,758.5	89,650.1	14.1%

Source: Wind Info

Bond market

In recent years, the PRC bond market continued to experience rapid development, with the types of bonds gradually diversifying. It has formed a multi-layered market structure which covers various types of bond issuers including the government, enterprises and financial institutions. This market structure covers traditional products including corporate bonds, financial institution bonds and enterprise bonds as well as innovative products such as ABS and exchangeable bonds. According to Bank for International Settlements, as at 31 December 2018, the PRC bond market ranked third in the world in terms of balance of debt securities.

INDUSTRY OVERVIEW

The following table sets forth the total amount of proceeds raised by PRC enterprises, financial institutions and local governments through the issuance of major types of bond products for the periods indicated:

	2013	2014	2015	2016	2017	2018	CAGR from 2013 to 2018
	(RMB in billions)						(percentage)
Corporate bonds	170.2	140.8	1,028.4	2,786.0	1,102.5	1,657.9	57.7%
Financial institution bonds	2,681.4	3,567.3	4,284.2	4,614.4	4,952.1	5,245.9	14.4%
Enterprise bonds	475.2	697.2	342.1	592.6	373.1	241.8	(12.6%)
Medium-term notes and short-term financing bills	2,311.3	3,162.2	4,553.5	4,509.5	3,414.5	4,825.2	15.9%
Exchangeable bonds	0.3	6.0	26.5	67.4	117.3	46.5	174.2%
Bonds issued by government- backed agencies	150.0	150.0	180.0	140.0	246.0	253.0	11.0%
Local government bonds	350.0	400.0	3,835.1	6,045.8	4,358.1	4,165.2	64.1%
ABS	23.2	331.0	613.5	882.3	1,478.1	2,014.6	144.2%
Private placement notes	565.7	1,026.3	884.5	598.6	493.8	546.4	(0.7)%
Total	6,727.3	9,480.8	15,747.8	20,236.6	16,535.5	18,996.5	23.1%

Source: Wind Info

Funds market

The PRC funds market has experienced significant growth in recent years driven by favourable regulatory environment and accumulation of personal wealth. According to the AMAC, as at 31 December 2018, the AUM of securities firm asset management amounted to RMB13.4 trillion, and the AUM of mutual funds managed by fund management companies amounted to RMB13.0 trillion. As a result of continuous development in regulations, the private investment funds market in the PRC has expanded rapidly. According to the same source, as at 31 December 2018, there were 74,642 private investment funds in China, and 24,448 private fund managers registered with AMAC. The AUM of private securities investment fund and private equity investment fund managers amounted to RMB2.2 trillion and RMB7.7 trillion, respectively.

PRC derivatives market

Derivatives in the PRC market are categorised into exchange-traded and OTC derivatives. Exchange-traded derivatives consist of financial derivatives and commodity derivatives. Financial derivatives are standardised contracts traded on China Financial Futures Exchange. There are six types of exchange-traded financial derivatives including CSI 300 index futures, CSI 500 index futures, SSE 50 index futures, 10-year treasury bond futures, 5-year treasury bond futures and 2-year treasury bond futures. Exchange-traded commodity derivatives mainly include agricultural products, base metals, precious metals and energy products traded on Dalian Commodity Exchange, Zhengzhou Commodity Exchange, Shanghai Futures Exchange and Shanghai International Energy Exchange. On 9 February 2015, SSE 50 ETF option contracts were listed and traded on the Shanghai Stock Exchange. OTC derivatives comprise equity options and equity swaps.

The transaction volume of exchange-traded derivatives is much larger than that of OTC derivatives, and exchange-traded derivatives market is dominated by commodity derivatives while financial derivatives have large growth potential. In 2018, the total transaction volume of futures

INDUSTRY OVERVIEW

exchanges in China (including China Financial Futures Exchange, Zhengzhou Commodity Exchange, and Dalian Commodity Exchange) was RMB210.8 trillion, and the accumulated nominal trading amount of SSE 50 ETF option contracts amounted to RMB8.4 trillion. According to the SAC, as at 31 December 2018, the balance of OTC derivatives was RMB346.7 billion. The following table sets forth the trading volume of major futures exchange-traded commodity futures, stock index futures and treasury bond futures for the periods indicated:

	2013	2014	2015	2016	2017	2018	CAGR from 2013 to 2018
	(RMB in trillions)						(percentage)
Commodity futures	126.5	128.0	136.5	177.4	163.3	184.7	7.9%
Stock index futures	140.7	163.1	411.7	9.3	10.5	15.7	(35.5%)
Treasury bond futures	0.3	0.9	6.0	8.9	14.1	10.4	103.2%
Total	267.5	292.0	554.2	195.6	187.9	210.8	(4.7%)

Source: China Futures Association, CSRC

The PRC Securities Industry

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

According to the SAC, as at 31 March 2019, there were 131 registered securities firms in China, and the total assets, net assets and net capital of all PRC securities firms amounted to RMB6.3 trillion, RMB1.9 trillion and RMB1.6 trillion, respectively.

The following table sets out the total assets, net assets, total revenue, net profit attributable to shareholders of the company and net capital of the top ten PRC securities firms, ranked by net profit attributable to shareholders of the company in 2018, as at and for the year ended 31 December 2018:

Top Ten Securities Firms (Consolidated basis) (Based on net profit ⁽¹⁾ ⁽²⁾)	Total assets	Net assets	Total revenue	Net profit ⁽¹⁾	Net capital
	(RMB in millions)				
CITIC Securities Co., Ltd.	653,133	156,831	37,221	9,390	91,996
Guotai Junan Securities Co., Ltd.	436,729	133,673	22,719	6,708	86,576
Haitong Securities Co., Ltd.	574,624	130,186	23,765	5,211	71,377
Huatai Securities Co., Ltd.	368,666	104,750	16,108	5,033	59,560
China Merchants Securities Co., Ltd.	304,931	80,792	11,322	4,425	52,816
GF Securities Co., Ltd.	389,106	88,629	15,270	4,300	58,563
Shenwan Hongyuan Group Co., Ltd.	347,725	71,196	15,277	4,160	58,374
Guosen Securities Co., Ltd.	211,814	52,527	10,031	3,423	39,733
China Securities Co., Ltd.	195,082	47,863	10,907	3,087	41,030
China Galaxy Securities Co., Ltd.	251,363	66,338	9,925	2,887	61,919

Source: Wind Info, as at 20 May 2019

(1) Net profit attributable to shareholders of the company

(2) Numbers are in conformity with PRC GAAP standards

The PRC securities industry has experienced significant growth with regulatory reforms and business innovation in major business lines:

Brokerage and wealth management:

Brokerage and wealth management business primarily comprises trading on behalf of customers in stocks, bonds, funds and derivatives, capital-based intermediary services and sales of financial products.

INDUSTRY OVERVIEW

According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as at 31 December 2018, there were 3,584 listed companies in the PRC stock market with total market capitalisation of RMB48.8 trillion, compared to 2,489 listed companies with total market capitalization of RMB27.3 trillion as at 31 December 2013. Brokerage trading volume of stocks and funds increased from RMB93.9 trillion in 2013 to RMB241.9 trillion in 2017. According to the same source, the revenue from brokerage business of the entire industry also increased from RMB88.1 billion in 2013 to RMB97.6 billion in 2017.

In 2017, the stocks and funds trading volume of the top ten securities firms accounted for 47.4% of the industry's total trading volume. The following table sets forth the brokerage trading volume of stocks and funds on a bilateral basis and the market share of the top ten PRC securities firms in 2017:

(RMB in billions)	Huatai Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	CITIC Securities Co., Ltd.	Haitong Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	GF Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	Guosen Securities Co., Ltd.	China Securities Co., Ltd.
Trading volume in stocks and funds	19,013.9	12,693.7	11,840.4	11,556.6	11,089.1	10,490.7	9,644.2	7,620.4	7,563.3	7,316.0
Market share	7.8%	5.2%	4.9%	4.8%	4.6%	4.3%	4.0%	3.1%	3.1%	3.0%

Source: Wind Info, as at 20 May 2019 (Note: 2018 data are not available)

As for capital-based intermediary business, according to SAC's Development Report of China's Securities Industry (2014) (page 15) and Wind Info, the balance of margin loans and securities lent increased from RMB346.5 billion as at 31 December 2013 to RMB755.7 billion as at 31 December 2018.

As at 31 December 2017, the balance of margin loans and securities lent of the top ten securities firms accounted for 49.2% of the industry's total balance. The following table sets forth the balance of margin loans and securities lent and the market share of the top ten PRC securities firms as at 31 December 2017:

(RMB in billions)	CITIC Securities Co., Ltd.	Huatai Securities Co., Ltd.	GF Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	Haitong Securities Co., Ltd.	China Securities Co., Ltd.	Guosen Securities Co., Ltd.
Balance of margin loans and securities lent	61.1	58.4	57.0	53.6	51.9	51.8	46.7	44.3	40.8	39.5
Market share	6.0%	5.7%	5.6%	5.2%	5.1%	5.1%	4.5%	4.3%	4.0%	3.8%

Source: Analysis on the Operations of Securities Firms in 2017 of Volume 3 of SAC's internal magazine Chuan Dao in 2018, page 11
(Note: 2018 data are not available)

The Securities-backed lending business was officially launched simultaneously on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 2013 and has witnessed rapid growth in the past few years. The total transaction volume in 2017 amounted to RMB872.6 billion, representing a 10.4% growth compared to 2016, according to SAC's Development Report of China's Securities Industry (2018) (page 18).

INDUSTRY OVERVIEW

As at 31 December 2017, the balance of securities-backed lending of the top ten securities firms accounted for 39.8% of the industry's total balance. The following table sets forth the balance of securities-backed lending and the market share of the top ten PRC securities firms as at 31 December 2017:

(RMB in billions)	CITIC Securities Co., Ltd.	Haitong Securities Co., Ltd.	Huatai Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	GF Securities Co., Ltd.	Shenwan Hongyan Group Co., Ltd.	China Securities Co., Ltd.	Guosen Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	China Merchants Securities Co., Ltd.
Balance of on-balance-sheet securities-backed lending	75.2	70.5	40.6	66.7	23.5	24.6	12.3	30.1	27.1	25.2
Balance of off-balance-sheet securities-backed lending	40.3	43.7	40.8	14.2	24.9	23.4	34.2	12.2	14.2	1.7
Total balance of securities-backed lending	115.5	114.2	81.4	81.0	48.3	47.9	46.5	42.3	41.3	26.8
Market share in terms of the balance of securities-backed lending	7.1%	7.0%	5.0%	5.0%	3.0%	3.0%	2.9%	2.6%	2.5%	1.7%

Source: Analysis on the Operations of Securities Firms in 2017 of Volume 3 of SAC's Internal magazine Chuan Dao in 2018, page 11 (Note: 2018 data are not available)

Investment banking:

Investment banking business primarily comprises financial advisory, equity underwriting and debt underwriting.

According to Mergermarket's China & Hong Kong M&A Trend Report: 2013 (page 1) and China & Hong Kong Trend Report Q1-Q4 2018 (page 3), the total transaction value of mainland China and Hong Kong M&A transactions increased from US\$185.7 billion in 2013 to US\$407.6 billion in 2018, and mainland China and Hong Kong's share in Asia Pacific region by transaction value increased from 41.6% in 2013 to 56.8% in 2018.

In 2018, the top ten financial advisory firms based on number of transactions accounted for 79.2% market share in terms of transaction value. The following table sets forth the key information relating to mainland China and Hong Kong M&A transactions advised by the top ten financial advisory firms ranked by number of transactions in 2018:

	China International Capital Corporation	Huatai Securities Co., Ltd.	CITIC Securities Co., Ltd.	China Renaissance Partners	Goldman Sachs & Co	Deloitte	China Securities Co., Ltd.	UBS	Somerley Capital	Citi
Number of transactions	44	44	33	33	31	28	26	24	24	20
Transaction value (US\$ in billions)	65.7	29.0	28.4	14.1	50.8	7.4	14.3	45.0	6.9	61.3
Market share of transaction value	16.1%	7.1%	7.0%	3.5%	12.5%	1.8%	3.5%	11.0%	1.7%	15.0%

Source: Mergermarket's China & Hong Kong Trend Report 2018

INDUSTRY OVERVIEW

Equity underwriting services mainly comprise IPOs and follow-on offerings, including placements, rights issues and convertible bonds. According to Wind Info, the total amount of equity underwritten by PRC securities firms increased from RMB451.5 billion in 2013 to RMB1.1 trillion in 2018, of which the top ten PRC securities firms accounted for 72.6% market share in 2018. The following table sets forth the key information relating to equity underwritten by the top ten PRC securities firms ranked by amounts underwritten in 2018:

	CITIC Securities Co., Ltd.	China Securities Co., Ltd.	Huatai Securities Co., Ltd.	China International Capital Corporation	Guotai Junan Securities Co., Ltd.	Guosen Securities Co., Ltd.	Haitong Securities Co., Ltd.	GF Securities Co., Ltd.	BOC International (China) Co., Ltd.	China Merchants Securities Co., Ltd.
Number of transactions . . .	52	56	39	27	30	15	23	28	7	20
Amounts underwritten (RMB in billions)	163.9	153.8	138.5	98.1	84.8	44.0	43.3	32.0	29.8	29.3
Market share of amount underwritten	14.6%	13.7%	12.3%	8.7%	7.5%	3.9%	3.8%	2.8%	2.6%	2.6%

Source: Wind Info, as at 20 May 2019

Debt underwriting services mainly comprise corporate bonds, financial institution bonds, enterprise bonds, local government bonds, policy bank bonds, ABS, private placement notes and exchangeable bonds. According to Wind Info, the total amount of debt underwritten by PRC securities firms increased from RMB1.2 trillion in 2013 to RMB5.9 trillion in 2018, of which the top ten PRC securities firms accounted for 62.7% market share in 2018. The following table sets forth the key information relating to debt underwritten by the top ten PRC securities firms ranked by amounts underwritten in 2018:

	CITIC Securities Co., Ltd.	China Securities Co., Ltd.	China Merchants Securities Co., Ltd.	China International Capital Corporation	Everbright Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	Haitong Securities Co., Ltd.	Huatai Securities Co., Ltd.	GF Securities Co., Ltd.	BOC International (China) Co., Ltd.
Number of transactions	1,402	1,296	712	703	625	754	791	432	688	556
Amounts underwritten (RMB in billions)	781.9	608.3	463.7	380.2	315.1	308.8	269.8	204.3	188.5	176.1
Market share of amount underwritten	13.3%	10.3%	7.9%	6.4%	5.3%	5.2%	4.6%	3.5%	3.2%	3.0%

Source: Wind Info, as at 20 May 2019

Asset management:

Asset management business primarily consists of securities firm asset management, private investment fund management and mutual fund management.

According to the Annual Report of PRC Securities Investment Fund Business (2013) (page 6) and the compiled data sheet on the asset management business by securities and futures companies of the fourth quarter of 2018 by AMAC, the total AUM of all asset management schemes in China increased from RMB6.2 trillion as at 31 December 2013 to RMB50.4 trillion as at 31 December 2018, of which total AUM of securities firms, fund management companies and private investment fund management companies reached RMB13.4 trillion, RMB11.3 trillion and RMB12.7 trillion, respectively, as at 31 December 2018.

As at 31 December 2018, the top ten PRC securities firms accounted for 51.5% market share in terms of AUM of securities firm asset management business. The following table sets forth the key

INDUSTRY OVERVIEW

information relating to asset management by the top ten PRC securities firms ranked by average monthly AUM in 2018:

Securities Firm	CITIC Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	Huatai Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	China Merchants Securities Co., Ltd.	China Securities Co., Ltd.	BOC International (China) Co., Ltd.	GF Securities Co., Ltd.	Essence Securities Co., Ltd.	Haitong Securities Co., Ltd.
Monthly average AUM (RMB in billion) ⁽¹⁾	1,549.8	812.9	812.4	756.3	656.2	618.9	605.4	445.6	315.9	310.1
Market share	11.6%	6.1%	6.1%	5.7%	4.9%	4.6%	4.5%	3.3%	2.4%	2.3%

Source: *Rankings of the Asset Management Business in 2018* by AMAC

(1) Arithmetic average of the ending balance of monthly AUM

Investment and trading:

Investment and trading business consists primarily of trading of stocks, fixed-income securities, funds, exchange-traded and OTC derivatives. According to SAC's Development Report of China's Securities Industry (2014) (page 14) and SAC's Chuan Dao magazine (Volume 483), the total balance of proprietary securities investments by PRC securities firms increased from RMB661.5 billion as at 31 December 2013 to RMB2.7 trillion as at 31 December 2018. Since the launch of stock index futures, treasury bond futures and stock options, trading strategies and investment instruments available to the PRC securities firms' investment and trading activities have become more diverse. The introduction of market-making services for ETFs, stock options, interbank market instruments and shares listed on the NEEQ has enhanced securities firms' trading capacity and liquidity risk management capabilities.

International business:

According to SAC's Development Report of China's Securities Industry (2018) (page 236), as at 31 December 2017, 31 securities firms, 24 fund management companies and 19 futures companies have set up, acquired or invested in overseas subsidiaries and branches. According to the same source (page 237), in 2017, 15 PRC listed securities firms had overseas revenue totalling RMB20.4 billion, which accounted for 7.0% of the total revenue of PRC listed securities firms. In recent years, the PRC government has been carrying out a series of reforms to further open up the capital markets. Internationalisation has been a key trend as evidenced by the launch of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, A shares' inclusion into the MSCI index as well as other initiatives such as Chinese depositary receipt and Shanghai-London Stock Connect.

Competition in the PRC securities industry

Intense competition exists in the PRC securities industry. Securities firms also face different levels of cross-industry and cross-business competition with other financial service providers. According to SAC's Chuan Dao magazine (Volume 483), in 2018, the top ten securities firms in China by revenue constituted an aggregate of 43.6% and 70.7% of the total market share in China in terms of revenue and net profit, respectively, which indicates that competition among the PRC securities firms has been, and is likely to remain, intense.

In addition to competition within the securities industry, competition with other financial institutions and financial service providers also exists in various businesses. For instance, in asset management business, securities firms compete with commercial banks, fund management companies

INDUSTRY OVERVIEW

and trust companies. The securities firms also face intense competition from commercial banks in debt underwriting business. With the development of internet finance, securities firms are also facing competition from internet financial service providers, emerging online wealth managers and discount brokers. Cross-business competition brings new opportunities and challenges to all business lines, and also facilitates the transformation and innovation of the products and services of securities firms.

Development trends of the PRC securities industry

The continuous expansion and evolution of wealth management market in China will bring substantial opportunities to securities firms. With the transformation of China's economy towards high-quality development, the continuous increase of national wealth and the growing demand of residents for financial management, the room for development of wealth management business will grow in depth. In this context, the accumulation of corporate assets and household wealth will bring new opportunities for the development of capital markets and securities firms. Meanwhile, capital markets will become increasingly important for affluent and high-net-worth individuals to maintain and grow their wealth. Securities firms have manifested advantages compared to other financial institutions in providing capital markets related services to clients, and have demonstrated potential in developing wealth management business and creating differentiated service models. As market competition intensifies, the average brokerage commission rate for securities trading has continued to decline. The traditional revenue and operational models of securities firms are facing significant challenges. Therefore, the transition from traditional brokerage services to comprehensive wealth management business and integrated financial services has been well acknowledged by industry players.

Economic transformation and industry upgrade, particularly the rise of new economies, as well as the capital markets reform and development, have provided strategic opportunities for further development of securities firms' investment banking business. With the economic transformation, the upgrade of industrial structure and the emergence of new economy companies, the establishment of multi-layered capital markets has become increasingly important in order to efficiently serve the diverse demands of the real economy companies. Financing services, including IPO, private placement, debt and ABS issuances, as well as M&A and restructuring advisory are instrumental to support the growth and transformation of these real economy companies in various development stages, which in return opens up more business opportunities for securities firms who intend to capture the macroeconomic trend and create long-term value for clients.

The institutionalisation of capital market participants and the improved sophistication of institutional investors set increasingly higher standards for securities firms' institutional services. In recent years, professional institutional investors such as mutual funds, private investment funds and insurance companies have achieved rapid growth. The market value of shares held by institutional investors has also continuously increased and institutional investors are gradually turning into a major participant in the market in contrast to before when retail investors dominated. At the same time, with the market entry of NSSF, pension funds and corporate annuities, as well as the ever-accelerating entry of QFIIs, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and more international investors upon the inclusion of A shares into MSCI index, the PRC capital markets are becoming increasingly institutionalised. The rapid development of institutional investors will also have more profound impacts on service models in the institutional services business. Securities firms are encouraged to enhance the core strengths in numerous areas such as investment research, prime brokerage and OTC derivatives and develop product innovation capabilities.

INDUSTRY OVERVIEW

Asset management industry is expected to continue its growth trajectory alongside more coordinated regulation. Under the trend of strengthening unified and coordinated supervision, the asset management industry in China will continue to promote client-centric approach, expand product offerings, improve active investment management capabilities, and better capitalise on the increasingly affluent client base. The asset management business of large-scale securities firms, in order to compete with other types of asset managers, is expected to further strengthen competitiveness based on in-depth understanding of client needs as well as the efficient collaboration of full-service chain and integrated advantages of investment and research.

The two-way opening up of capital markets has attracted more international players to the domestic market and accelerated the internationalisation of the PRC securities industry. China has made significant progress on reforming its capital markets and further opening-up continues to be a major theme. In addition to the further expansion of QDIIs and the cancellation of QFII and RQFII remittance restrictions, China launched the Shanghai-Hong Kong Stock Connect in November 2014 and the Shenzhen-Hong Kong Stock Connect at the end of 2016, which would further open up for foreign investors to tap into China's capital markets. Furthermore, authorities approved bond trading link programme between the mainland China and Hong Kong in May 2017, allowing investors from both sides to trade eligible bonds on each other's interbank markets. With the inclusion of A shares into MSCI Index and FTSE Russell Index, the demand for investment in A share stocks from foreign investors is expected to further rise.

Meanwhile, with the increase of Chinese household's wealth and investable income, the demand for offshore wealth management and global asset allocation is also growing. Chinese securities firms which already set up comprehensive and multi-regional business platforms are better positioned to capture the emerging cross-border business opportunities.

As at the end of May 2019, CSRC has approved three foreign-controlled securities firms, and AMAC has approved the registration of 19 foreign-owned private fund managers.

Technology advancement is reshaping the PRC securities industry. By leveraging mobile technology, big data, cloud computing, and artificial intelligence, securities firms provide more innovative products and enhance service capabilities. The technology-driven operating model has prompted securities firms to apply data analytics to better understand client needs, improve client satisfaction and stickiness as well as to acquire new clients. Securities firms are also shifting operations from offline to online to streamline business processes, to reduce costs and improve efficiency.

The strengthening of regulations will be more beneficial to large-scale comprehensive securities firms with solid financial position and sound risk management. With increased emphasis on classification regulation of securities firms, which differentiates regulatory resources and measures implemented upon different securities firms in terms of required capital reserves, licencing of businesses, and inspections and compliance, large-scale and leading firms are at advantage to receive favourable regulatory supports and improved flexibility in exploring new businesses. For example, currently only a limited number of large-scale securities firms have obtained cross-border trading licences and other qualifications, establishing their first-mover advantages in innovative businesses. In addition, the high-quality services provided are increasingly recognised by clients, which further leads to increase of market concentration in various business segments.

BUSINESS DESCRIPTION

Overview

The Group is a leading technology-enabled securities group in China, with a highly collaborative business model, cutting-edge digital platforms, and an extensive and engaging client base. From 2012 to 2018, the Group's number of wealth management customers increased twofold to 12.7 million, and total revenue and other income increased fourfold to RMB24,506.7 million. The Group ranked fourth among PRC securities firms in terms of net profit attributable to the shareholders of the Company in 2018.

Over its 28 years of operating history, the Group has achieved rapid growth by successfully capitalising on the transformation and development opportunities of the PRC securities industry. It has completed a series of successful mergers and acquisitions, completed IPOs of its A Shares on the Shanghai Stock Exchange and H Shares on the Hong Kong Stock Exchange, and navigated various market and business cycles and regulatory reforms. The Group has achieved market-leading positions in multiple business lines:

- the Group has ranked first in terms of brokerage trading volume of stocks and funds in the PRC securities industry from 2014 to 2018¹;
- the monthly active users of the Group's mobile app ZhangLe Fortune Path has ranked first among PRC securities firms' apps since April 2015 according to Analysys;
- the Company's balance of margin loans and securities lent ranked second in the PRC securities industry as at 31 December 2018 according to the SAC;
- in terms of the number of M&A transactions, the Group ranked first in mainland China and Hong Kong for the year ended 31 December 2018, according to Mergermarket; and
- the Group ranked third among PRC securities firms in terms of average monthly AUM in 2018 according to AMAC.

The Group operates four principal business segments:

- *Wealth management business*, which offers convenient online wealth management solutions and customised advisory solutions, including securities and derivatives brokerage, financial products sales and capital-based intermediary services;
- *Institutional services business*, which provides comprehensive financial services to various types of corporate and institutional clients, including investment banking, institutional investor services and investment and trading;
- *Investment management business*, which provides full-service asset management solutions, including securities firm asset management, private equity fund management and mutual fund management; and
- *International business*, which provides full-scope financial services in Hong Kong through Huatai Financial Holdings, and wealth management and technology solutions in the US through AssetMark.

In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, the Group's total revenue and other income was RMB24,631.6 million, RMB31,323.4 million, RMB24,506.7 million, RMB6,282.0 million and RMB7,349.0 million, respectively, and its profit for the year was RMB6,519.5 million, RMB9,407.9 million, RMB5,160.9 million, RMB1,971.3 million and RMB2,638.2 million, respectively.

¹ The Group has ranked first in terms of brokerage trading volume of stocks and funds in the PRC securities industry from 2014 to 2017 according to Shanghai Stock Exchange and Shenzhen stock Exchange. In 2018, Shanghai Stock Exchange and Shenzhen stock Exchange ceased to provide such ranking. The Group's 2018 ranking is based on its internal statistical data and SAC industry data.

BUSINESS DESCRIPTION

In recognition of its outstanding business performance, the Group has received a number of awards:

Year	Awards	Organisers/Media
2019	“Best Wealth Manager in China—Securities Brokerage” “Best Digital Wealth Management Platform in China” The Selection of New Fortune Top Investment Banks: Huatai United won 28 awards, including “Best Investment Bank in Mergers and Acquisitions”, “Best Investment Bank in Medical and Healthcare Industry” and “Best Investment Bank in Innovation Capabilities”	Asian Private Banker New Fortune Magazine
2018	Huatai Financial Holdings was awarded “Best Private Debt Institutional Investor in Asia Pacific for the Year of 2018” Huatai Asset Management was awarded “Excellent Manager of Asset-backed Special Schemes” and “Innovation Award in Asset Securitisation” for the year of 2018 Huatai Asset Management was awarded “Excellent Manager of Asset-backed Special Schemes” for the year of 2018 The Selection of “Best App of Securities Firms of the Year of 2018”: ZhangLe Fortune Path was on the list of “Top Ten Apps”, “Users’ Favourite App”, and “The Most Recommended App by Securities Professionals” The Selection of New Fortune Top Investment Banks: Huatai United won 20 awards, including “Best Domestic Investment Bank”, “Best Investment Bank in Equity Underwriting”, “Best Investment Bank in Debt Underwriting”, “Best Investment Bank in Mergers and Acquisitions”, and “Best Investment Bank in Serving Overseas Markets” “Mid-Market M&A Financial Adviser of the Year USD50-300 million” “China’s Best Corporate Investment Bank for Privately-Owned Enterprises” The Selection of “2018 Junding Award for Wealth Management Institutions of China”: Huatai Asset Management was awarded “Junding Award for Wealth Management Institutions of China” and “Junding Award for Asset Management Securities Firms of China”	Private Debt Investor The Shanghai Stock Exchange The Shenzhen Stock Exchange Sina Finance New Fortune Magazine Mergermarket Asiamoney Securities Times
2017	“2017 Outstanding Securities Firm for Wealth Management” The Selection of “Institutional Investor • Caixin Best Analyst of Greater China”: The Group’s research institute ranked No.2 in terms of the most powerful Chinese research institutes, No.4 in terms of the best analysts, and No.5 in terms of the best sales team	China Business & Chinese Academy of Social Sciences Institutional Investor and Caixin Media

BUSINESS DESCRIPTION

Year	Awards	Organisers/Media
	The Selection of “2017 Junding Award for Investment Bank Excellence of China”: “2017 Junding Award for Comprehensive Investment Banks of China” “2017 Junding Award for Bond Investment Banks of China” “2017 Junding Award for M&A Investment Banks of China”	Securities Times
	Huatai Asset Management was awarded “Excellent Manager of Asset-backed Special Schemes in the Bond Market of the Year of 2017”	The Shanghai Stock Exchange
	Huatai Asset Management was awarded “Excellent Manager of Asset-backed Special Schemes of the Year of 2017”	The Shenzhen Stock Exchange
2016	The Selection of “2016 China Wealth Management Forum & Wealth Management Firms Prize Awarding Ceremony”: “2016 Best Securities Firm in China” “2016 Best Internet Securities Firm in China”	Securities Times
	Huatai United was awarded “Best Domestic Investment Bank”, “Best Investment Bank in Serving Overseas Markets”, “Best TMT Investment Bank”, and “Best Domestic Investment Bank in M&A”	New Fortune Magazine

History

The predecessor of the Company was Jiangsu Securities Company, which obtained its business licence on 9 April 1991, and officially started business operations on 26 May 1991. In December 1999, the Company was renamed Huatai Securities Limited Liability Company. In December 2007, the Company was renamed Huatai Securities Co., Ltd. as a result of its conversion into a joint stock limited liability company. In February 2010, the Company was successfully listed on the Shanghai Stock Exchange under stock code 601688. In June 2015, the Company was listed on the Main Board of the Hong Kong Stock Exchange under stock code 6886.

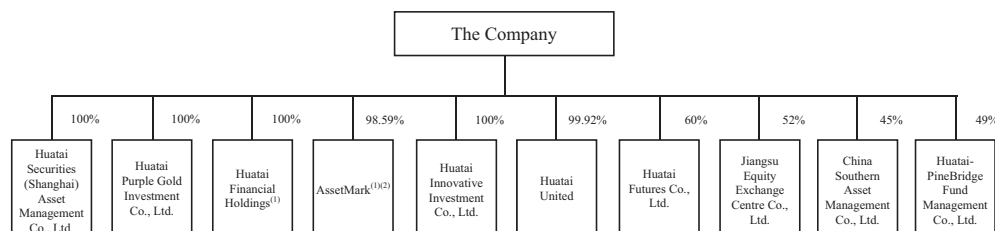
The following sets forth some of the Group’s key corporate milestones:

- 2005 ● The Company acquired Asia Securities Co., Ltd.
- 2006 ● The Company acquired 70% equity interest in United Securities Co., Ltd.
- Huatai Financial Holdings (Hong Kong) Ltd. was formed.
- 2010 ● The Company was listed on the Shanghai Stock Exchange.
- 2015 ● The Company was listed on the Hong Kong Stock Exchange.
- 2016 ● The Company acquired AssetMark for consideration of US\$768 million to establish its US presence.
- 2018 ● The Company launched a pilot plan to deepen its ownership reform and introduced a number of strategic investors, including Alibaba and Suning.
- Huatai Securities (USA) Inc. was incorporated in the United States with its headquarters in New York City.

BUSINESS DESCRIPTION

Organisational Structure

The following chart illustrates the simplified organisational structure of the Group and its major associates as at the date of this Prospectus.



- (1) Huatai Financial Holdings and AssetMark are indirectly controlled by the Company through its wholly-owned subsidiary, Huatai International.
- (2) On 23 April 2019, AssetMark submitted on a confidential basis to the United States Securities and Exchange Commission (the “SEC”) a draft registration statement for the possible registered public offering in the United States of the shares of AssetMark. The proposed spin-off and separate listing of AssetMark is subject to, among other things, prevailing market conditions and the obtaining of approvals from the relevant authorities, including the CSRC and the SEC.

For details of the principal subsidiaries and affiliates, see “General Information—8. Subsidiaries”.

Competitive Strengths

The Group is expected to benefit from the following favourable developments in the PRC securities industry:

- The increasing adoption of advanced technology in the financial services industry;
- The rapid accumulation of personal wealth and increasing needs for wealth management solutions;
- Rising demand for financial services from emerging new economy sectors; and
- Rising participation of institutional investors in the capital markets and increasing demand for specialised institutional client services.

The Group believes the competitive strengths set out below help it secure a leading position in the PRC securities industry.

A technology-empowered pioneer in China’s transforming securities industry

The Group was one of the first securities firms in China to embrace technology, and invested heavily to develop proprietary technology capabilities. By adopting advanced technologies, the Group has redefined its client service philosophy and transformed its business model.

The Group believes technology is the backbone of its business. It adopts a mobile strategy to drive customer growth, enhance customer experience and deliver first class wealth management services. The Group has independently developed industry-leading digital products and solutions, such as intelligent trading, quantitative investment and research and advanced market data analytics through artificial intelligence, top-speed communication and other cutting edge technologies, to serve the needs of the increasingly sophisticated institutional investors. Leveraging its technology-driven business model and streamlined middle-and-back office platform, the Group is able to significantly enhance its

BUSINESS DESCRIPTION

operating efficiency. With the integration of technology in operations and infrastructure, the Group also introduced an enterprise risk management platform that enables comprehensive monitoring and analysis of operational and risk management across different risk types and all business lines.

The Group's technology-driven business model has contributed to its leading market positions and uniquely equipped itself to capture opportunities and respond to challenges from the evolving industry and market environment.

Open digital wealth management platform driving efficiency, customer growth and engagement

The Group has established the most dynamic wealth management platform among PRC securities firms with 13.0 million customers as at 31 March 2019. By applying big data and other advanced technologies, the Group has enhanced its service capabilities, achieved superior cost efficiency and secured leading market position.

The Group was one of the first in the PRC securities industry to introduce a mobile platform in 2010, and continued to upgrade and innovate its mobile offerings to drive customer engagement. According to Analysys, the monthly average users of the Group's mobile app, ZhangLe Fortune Path, has ranked first among PRC securities firms' apps since April 2015, reaching 7.8 million in March 2019 and surpassing the second largest player by 3.6 million. As at 31 March 2019, the ZhangLe Fortune Path mobile app has been downloaded by over 46.9 million mobile devices. ZhangLe users are generally young and mobile savvy with 85.2% of the Group's active mobile users below the age of 40, as at 31 March 2019. As the wealth of young and affluent population in China continues to grow, the Group is well positioned to capture the blue-ocean wealth management market.

With the vast amount of data collected across its technology platforms, the Group is able to perform accurate customer analytics to enhance its service capabilities and support its wealth management advisors. The Group has developed a digital operation and management system to identify customers' needs, recommend investment solutions and dynamically allocate marketing assignment automatically and efficiently. This system is highly scalable and widely used by the Group's top ranking investment advisor team in the industry. The technology-enabled distribution strategy is also highly successful and has driven significant increase in distribution efficiency. The Group offers a wide range of differentiated financial products and the vast majority of them are proprietary. The sales volume of third-party financial products of the Group more than doubled from RMB24.6 billion in 2017 to RMB60.0 billion in 2018.

Best-in-class investment banking franchise capturing new economy opportunities

New economy companies are transforming traditional industries through technology advancement and innovative business models. They are becoming a leading force for the overall economy with rising financial advisory and financing needs. Leveraging its best-in-class investment banking franchise, the Group plays a critical role to support the structuring and execution of the industry-defining transactions.

The Group has developed a substantial client base in new economy sectors and has formed strong relationships with leading players in these industries. Its investment banking business has achieved rapid growth as its clients have grown in significance and scale and as the Group continues to engage with new and fast-growing clients. Since 2012, the Group has served over 70 investment banking clients in TMT and healthcare sectors with a combined market capitalisation of over RMB1.7 trillion as at 31 December 2018. The Group has completed over 180 transactions for these clients.

BUSINESS DESCRIPTION

The Group has established a time-tested competitive edge in M&A advisory and equity underwriting. It has also successfully executed complicated transactions and assisted clients in navigating regulatory, cross-border and cross-market challenges. The Group ranked first in terms of the CSRC-approved M&A transaction value in 2018 and of the total number of CSRC-approved M&A transactions from 2012 to 2018 and has consistently ranked in the top five for equity underwriting in the PRC securities industry since 2015. As the evolution of new economy sectors and transformation of traditional industries continue, the Group expects to capitalise on increasing activities in the M&A and financing markets.

Comprehensive asset management platform with significant scale

As a result of its innovative product offering and strong distribution capabilities, the Group has established one of the largest asset management platforms in the industry. According to AMAC, the Group ranked third among PRC securities firms in terms of average monthly assets under management in 2018, totalling RMB812.4 billion.

The Group's full-licence asset management platform consists of Huatai Securities Asset Management, Huatai Purple Gold Investment Co., Ltd. ("**Huatai Purple Gold Investment**") and two fund management associates, namely China Southern Asset Management Co., Ltd. ("**China Southern Asset Management**") and Huatai-PineBridge Fund Management Co., Ltd. ("**Huatai-PineBridge**"). The Group manages products across major asset classes, including equities, fixed income, money market funds, private equity, hedge funds, asset-backed securities ("**ABS**") and other alternative asset classes. The Group's significant scale and breadth of product offerings provides it with significant operational leverage and market influence.

The Group is widely considered as the industry leader in structuring ABS transactions, and executed a number of innovative transactions such as the first commercial real estate securitisation product, the first ABS of e-commerce receivables, and the first foreign currency denominated aircraft leasing ABS. In 2018, the Group issued 40 ABS schemes with a total AUM of RMB63.9 billion, ranking fourth in the PRC securities industry, according to Wind Info.

Global footprint creating new growth opportunities

The Group has selectively established an international presence to support the outbound growth by Chinese clients and inbound investments by international investors. The Group has built a full-service international platform in Hong Kong through Huatai Financial Holdings covering investment banking, wealth management, research, institutional sales and trading as well as asset management. Huatai Financial Holdings has successfully leveraged the Group's client resources in mainland China and comprehensive onshore and offshore service capabilities to engage in cross-border activities.

The Group has also demonstrated successes in establishing core strengths outside of the Greater China region, primarily through the acquisition of AssetMark in 2016. This acquisition was the first of its kind by a Chinese securities firm and provides the Group with unique access to the US market. The acquisition preserves the operational independence of AssetMark to ensure long-term success and provides an opportunity for the Group to learn from the best-in-class international business model and advanced technology platforms to further develop its wealth management business in China. Since this acquisition, AssetMark has recorded growth of over one-third in platform assets.

BUSINESS DESCRIPTION

Effective risk management enabled by technology and talent

The Group has fully integrated technology into its enterprise risk management platform to provide risk monitoring, warning and prevention across various business lines and subsidiaries covering different risk types. As part of the digital journey for the Group's customers, communications and transactions are screened using recognition technology to monitor compliance. Financial and operational data across subsidiaries are centralised to facilitate the quantification of risks. The Group collects over 100 million data points and compiles over 400 risk indicators per day. The Group has also launched an intelligent information security platform that tracks and studies cyber security in real time and effectively defends against network attacks.

Behind the advanced systems and technologies, the Group has a well-established governance structure and a highly effective team to oversee and implement its risk management and internal control. The Group's governance framework includes the Board of Directors, the Board of Supervisors, Compliance and Risk Management Committee, President Office and Risk Control Committee. The Group's risk management team, led by its Chief Risk Officer, executes its risk management strategy.

Visionary management team and diverse shareholder base

The Group is led by a visionary senior management team with a diverse background across financial and technology industries. The team has on average over nine years of experience with the Group. In particular, the Group's President is the youngest and longest-serving President amongst the top ten securities firms in China. The management team's vision, conviction, and execution drove the evolution of its client-centric and technology-empowered business model.

The Group adopts a market-driven remuneration structure that rewards performance and results. Its recruiting strategy is focused on identifying the best talent with relevant experience to establish a cross-industry and cross-border pool of talents.

The Group has embarked on a programme of mixed ownership reform since 2018 and has introduced important strategic investors, such as Alibaba and Suning, to establish a more diverse shareholder base. The Group receives strong shareholder support from a combination of large, prudent state-owned enterprises and influential, strategic new economy companies. A diverse and balanced shareholder and board structure is intended to enhance its governance and transparency, and brings new visions and support to its future strategies. In addition, the Group intends to introduce an executive committee in the second half of 2019 and bring in professional business managers to form a more dynamic and market-oriented senior management structure.

Business Strategies

The Group is committed to becoming a first-class integrated financial services group with domestic strengths and global influence.

Starting from 2019, the Group launched a "two-pronged" strategy for developing wealth management and institutional services. While continuing to adhere to the client-centric principles, facilitate digital transformation and improve organizational structure, the Group aims to further expand the customer base and customer assets on its platform.

BUSINESS DESCRIPTION

Strengthen technology leadership to drive future growth

The Group will continue to invest heavily in technology and strengthen its research and development capabilities and to leverage advanced technologies to improve client services quality and operational efficiency. The Group is working on further integrating technology with its business operations and increasing the connectivity of its front, middle and back offices.

Enhance client centricity to generate long-term value

The Group believes in long-term and deep relationships with clients. The Group intends to strengthen its client-centric philosophy and increase focus on execution to promptly identify and serve its client needs. By continuing to enhance client relationship and increase the depth and breadth of its platforms to serve the clients' evolving needs, the Group intends to realise the full potential of its comprehensive business model and generate greater long-term value.

Continue to pursue product and service innovation

Based on its insights into market and industry trends and deep understanding of evolving client needs, the Group will proactively explore new business opportunities and strengthen its product and service innovation capabilities to provide differentiated value propositions to its clients.

Strategically expand international business

The Group intends to expand the capital base and further develop its international business. In addition, the Group will gradually increase its business presence in the United States and enter into the UK and European markets and explore international business opportunities in potential areas such as investment banking, asset management and wealth management.

Attract, retain and develop first class talent

The Group will continue to attract and retain the best talent with financial, technology, and other background by providing competitive remuneration packages and incentive structure. The Group will continue to provide a well designed training programme to keep its staff updated with the latest trends and knowledge, and enhance their career development paths.

BUSINESS DESCRIPTION

Principal Business Segments

The Group provides comprehensive financial services to individual, institutional and corporate clients to meet their financial needs. The principal business segments of the Group comprise its wealth management business, institutional services business, investment management business and international business. The following table sets forth a breakdown of the Group's revenue and other income by segment (including inter-segment revenue) for the periods indicated:

	Year Ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	unaudited		unaudited		unaudited		unaudited		unaudited, reviewed	
	(RMB in millions)	(%)	(RMB in millions)	(%)	(RMB in millions)	(%)	(RMB in millions)	(%)	(RMB in millions)	(%)
Wealth management business . . .	15,086.8	61.1	14,099.0	42.1	12,991.1	48.0	3,595.8	46.2	3,420.6	41.9
Institutional services business . . .	5,062.7	20.5	5,425.0	16.2	3,109.7	11.5	843.3	10.8	1,848.0	22.6
Investment management business	3,326.1	13.5	3,435.4	10.2	3,398.8	12.6	835.2	10.7	996.5	12.2
International business	358.3	1.5	3,767.1	11.2	3,115.5	11.5	725.6	9.3	824.5	10.1
Others ⁽¹⁾	838.6	3.4	6,794.5	20.3	4,443.7	16.4	1,782.5	22.9	1,071.6	13.1
Total	24,672.5	100.0	33,521.0	100.0	27,058.8	100.0	7,782.5	100.0	8,161.2	100.0

(1) Others include other operations of the head office, which mainly includes interest income, share of profit of associates and joint ventures (including associates of investment management business), interest expenses of working capital and cost and expenses of middle and back offices.

Wealth Management Business

Overview

The Group is focused on providing full-service wealth management solutions for different groups of customers through online and offline collaboration to capture their increasingly diverse demand for more convenient and customised wealth management services.

The Group's wealth management customers are divided into two major categories, namely, retail customers and affluent customers. The following table sets forth the details of the Group's wealth management customers by category as at the dates indicated:

	As at 31 December 2018			As at 31 March 2019		
	Number of customers	Account balance		Number of customers	Account balance	
	(in thousands)	(RMB in billions)	(%)	(in thousands)	(RMB in billions)	(%)
Retail customers (with account balance of less than RMB0.3 million) . .	12,304	175.0	16.7%	12,397	189.8	13.7%
Affluent customers (with account balance of equal to or over RMB0.3 million)	443	872.5	83.3%	584	1,201.1	86.3%
Total	12,747	1,047.5	100.0%	12,982	1,390.9	100.0%

Online Platform

The Group's online platform consists of ZhangLe Fortune Path mobile app and PC-based online trading software, which provides convenient, customer-centric and user-friendly online services,

BUSINESS DESCRIPTION

including account opening and management, market data, securities trading, financial products sales and advisory services.

ZhangLe Fortune Path mobile app is a leading wealth management platform in the PRC securities industry. According to Analysys, the MAU of ZhangLe Fortune Path has ranked first among PRC securities firms' apps since April 2015, reaching 7.8 million in March 2019. As at 31 March 2019, ZhangLe Fortune Path mobile app had been downloaded on over 46.9 million mobile devices. In 2018, 96.8% of the Group's new accounts were opened on mobile app. In 2016, 2017, 2018, and the first quarter of 2019, 81.9%, 85.3%, 87.3% and 86.6% of the Group's trading customers used ZhangLe Fortune Path for securities trading, respectively.

The Group has invested significant resources in the research and development of advanced technologies in recent years, such as big data and artificial intelligence, and transformed its online platform from an information and trading-based channel to a new intelligent wealth management platform. In 2018, the 6.0 version of ZhangLe Fortune Path was released, which features real time update to the customers' entire asset portfolio, intelligent trading assistance tools, improved trading speed and comprehensive market overview. The Group has also enhanced the wealth management services on ZhangLe Fortune Path, creating an online financial products and marketing system which leverages the Group's strong product development and service capabilities, covering third-party and proprietary financial products. As at 31 March 2019, over 5,000 financial products were available on the app.

In addition, the Group is able to perform big data analytics and categorise its customers into different groups based on their needs and behaviours. Extensive data analytics and effective customer profiling enable the Group to deliver more targeted services and information that appeal to its customers through standardised procedures on its online platform to expand its service coverage and improve customer experience.

Wealth Management Platform

The Group offers customised wealth management services to affluent customers primarily through the wealth management platform, supported by a large and experienced team of wealth management advisors and an extensive branch network.

The wealth management advisors are primarily responsible for providing comprehensive financial services. They are equipped with the Group's proprietary digital operation and management systems which integrate the Group's customer service capabilities, full suite of third-party and proprietary financial products and portfolio management strategies. These systems are intended to visualise and capture customer demand and facilitate customer relationship. Based on customers' risk profiles, preferences and goals, the Group's wealth management advisors recommend suitable asset allocation strategies and financial products across asset classes. Its wealth management platform also provides multi-dimensional contents and detailed analysis on market insight, macro-economy, sectors and individual securities to the customers. As at 31 March 2019, the Group had over 2,000 licensed investment advisors.

BUSINESS DESCRIPTION

In addition, the Group has one of the largest branch networks among PRC securities firms, with 241 securities branches and 42 futures branches spanning over 29 provinces, municipalities and autonomous regions in China as at 31 March 2019, which is illustrated below:



The Group's branches are mainly located in the economically developed regions with high concentrations of affluent individual and institutional clients, such as the Yangtze River Delta, the Pearl River Delta and the Bohai Rim. As at 31 March 2019, the Group's securities branches and futures branches located in these economically developed regions constituted approximately 67.6% and 71.4% of its total securities branches and futures branches, respectively. As at the same date, the Group also established 37 securities branches in regions with high growth potential and relatively less price competition, such as Hubei, Sichuan and Chongqing, representing approximately 15.4% of its total securities branches.

These branches are full-service platforms that are responsible for providing customised wealth management services to affluent individual and institutional clients, aggregating product resources to satisfy diverse client needs and cross-selling with other business lines by leveraging local resources.

Products and Services

The Group's wealth management business primarily covers the following activities:

- *Securities, futures and options brokerage.* The Group executes trades on behalf of its customers in stocks, funds, bonds, futures and options.
- *Financial products sales.* The Group sells to customers a variety of financial products managed by the Group and other financial institutions, and provides advisory services.
- *Capital-based intermediary services.* The Group provides diversified financing services including margin financing and securities lending as well as securities-backed lending to customers.

BUSINESS DESCRIPTION

Securities Brokerage

The Group engages in the trading of various types of securities on behalf of its customers, including:

- *Stocks*: stocks of listed companies on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange (through the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect);
- *Funds*: listed funds, including open-ended funds, close-ended funds and ETFs;
- *Bonds*: bonds that are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, including treasury bonds, corporate bonds and convertible bonds; and
- *Stock options*: SSE 50 ETF options.

The following table sets forth the trading volume and market share (where data is available) by product type for the Group's securities brokerage business for the periods indicated:

	Year ended 31 December						Three months ended 31 March	
	2016		2017		2018		2019	
	Trading volume	Market share ⁽¹⁾	Trading volume	Market share ⁽¹⁾	Trading volume ⁽²⁾	Market share ⁽³⁾	Trading volume ⁽²⁾	Market share ⁽³⁾
	(RMB in billions)	(%)	(RMB in billions)	(%)	(RMB in billions)	(%)	(RMB in billions)	(%)
Stocks ⁽⁴⁾	20,000.8	7.9	16,811.7	7.6	13,302.4	N/A	5,139.8	N/A
Funds	4,519.5	20.3	2,202.2	11.2	969.5	N/A	268.5	N/A
Bonds	13,654.1	2.9	17,191.3	3.3	22,450.9	N/A	6,908.2	N/A

(1) Source: Wind Info.

(2) Source: Shanghai Stock Exchange, Shenzhen Stock Exchange and the Company's internal statistical data.

(3) Wind Info no longer provides trading volume data for stocks, funds and bonds since April 2018.

(4) Trading volume excluded data from the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

The Group has ranked first in terms of brokerage trading volume of stocks and funds in the PRC securities industry from 2014 until 2017 according to Wind Info. In 2018, the Group's brokerage trading volume of stocks and funds amounted to RMB14.3 trillion, ranking first in the PRC securities industry according to data published by the Shanghai Stock Exchange and the Shenzhen Stock Exchange. In terms of market share, the Group was one of the top three market makers for SSE 50 ETF exchange-traded options in 2018. The Group also has a leading position in the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect markets. For the southbound trading under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Group had approximately 190,600 and 80,900 authorised users in total as at 31 March 2019, respectively.

Futures and Options Brokerage

The Group provides futures brokerage services through its subsidiary, Huatai Futures Co., Ltd. ("Huatai Futures"), which is a member of the Shanghai Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange and the China Financial Futures Exchange. As at 31 March 2019, its futures products included 64 types of commodity and precious metals futures, such as agricultural products, bullion, chemical products and metals, as well as financial futures. The Group provides commodity options brokerage services covering all the listed commodity options in China, namely soybean meal options listed on the Dalian Commodity Exchange, white sugar options listed on the Zhengzhou Commodity Exchange, and copper options listed on the Shanghai Futures Exchange.

BUSINESS DESCRIPTION

The following table sets forth the trading volume of the Group's futures and options brokerage business by product type for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	(RMB in billions)				
Commodity futures	9,462.7	8,783.2	15,764.9	1,712.9	5,458.8
Financial futures	1,333.1	1,495.9	1,710.1	346.0	1,041.8
Commodity options	—	0.2	0.5	0.1	0.1
Total	10,795.8	10,279.3	17,475.5	2,059.0	6,500.6

As at 31 March 2019, the Group had 42 futures branches across 20 provinces and municipalities in China. In addition, as at the same date, 211 of its securities branches were licensed to conduct futures introducing broker business, allowing such branches to introduce potential customers to Huatai Futures. As at 31 March 2019, the total number of futures customers of the Group reached approximately 105,800.

Financial Products Sales

The Group engages in the sales of diverse financial products by third-party financial institutions such as fund management companies, private investment fund management companies and trust companies. It has over 3,000 third-party financial products distributed through its online platform and branch network as at 31 March 2019.

In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, the sales volume of third-party financial products of the Group amounted to RMB29.1 billion, RMB24.6 billion, RMB60.0 billion, RMB15.2 billion and RMB15.6 billion, respectively.

Through research, the Group has developed financial product evaluation system and procedures to manage and evaluate financial products and conduct detailed analysis on people, philosophy, process, portfolio, and performance of each third-party financial institution. In particular, the Group employs quantitative and qualitative analysis of mutual funds and private investment funds to identify the risks and returns of products, determine which financial products are suitable for its customers, and meet their diverse asset allocation needs.

Capital-based Intermediary Services

The Group's capital-based intermediary services include margin financing and securities lending, as well as securities-backed lending.

- Margin financing and securities lending

The Group offers collateralised financing through its margin financing services to brokerage customers who wish to finance their securities purchases and also lends securities held in its own accounts to brokerage customers through its securities lending services.

The Group earns interest income for margin loans and securities lent and also earns fee and commission income for margin trades. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the Group's margin loan balance and market value of securities lent amounted to RMB55.1 billion, RMB58.8 billion, RMB43.5 billion and RMB55.5 billion, respectively.

BUSINESS DESCRIPTION

As at 31 March 2019, 950 stocks and 48 ETFs were eligible for margin financing and securities lending in China, of which the Group offered margin financing services and securities lending services for 946 eligible stocks and 48 eligible ETFs.

The following table sets forth a summary of the key operating and financial information of the Group's margin financing and securities lending business:

	As at or for the year ended 31 December			As at or for the three months ended 31 March
	2016	2017	2018	2019
Number of margin financing and securities lending customers	292,837	319,095	344,111	357,688
Balance of margin loans and securities lent (<i>RMB in billions</i>) ⁽¹⁾	55.1	58.8	43.5	55.5
Maintenance margin ratio ⁽²⁾	337.8%	304.4%	272.8%	328.5%
Trading volume of margin accounts from margin financing and securities lending (<i>RMB in billions</i>)	5,525.5	4,557.9	3,512.2	1,407.7

(1) Only includes the balance of margin accounts of the Group's brokerage customers.

(2) Maintenance margin ratio refers to the ratio of the fair value of the collateral, including cash and securities in the margin accounts of the customers, to the total amount of receivables from the customers, including margin loan balance, market value of securities lent and accrued interest and fees.

The Group determines the credit limit of its customers based on various factors, such as the total value of their assets maintained with the Group and their creditworthiness. The Group has also established a risk management warning mechanism through which it monitors the value of its customers' collateral and maintenance margin ratios on a real time basis. If the maintenance margin ratio is below the alert level for the first time, the Group will send alerts to customers. If the maintenance margin ratio is below 130% for the first time after clearing on a particular trading day, the Group will issue a warning to such customers requiring them to increase their maintenance margin ratios to 140% or higher on or before the next trading day.

As at 31 March 2019, the Group's balance of margin loans and securities lent was RMB55.5 billion, accounting for 6.0% of the market shares. At the same date, the Group had 357,688 margin financing and securities lending customers, accounting for 7.4% of the total number of margin financing and securities lending customers in China, according to Wind Info.

● Securities-backed lending

In a securities-backed lending, customers pledge their securities to the Group as collateral and the Group provides loans to its customers at an interest. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the balance of the Group's securities-backed lending business was RMB69,026 million, RMB90,875 million, RMB53,904 million and RMB53,001 million, respectively, including on balance sheet and off balance sheet securities-backed lending.

The Group requires its securities-backed lending customers to provide sufficient collateral and monitors its customers' collateral coverage ratio on a real-time basis. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the collateral coverage ratio of the Group's securities-backed lending business was 245.3%, 238.0%, 231.7% and 306.1%, respectively.

The Group emphasises the risk management of securities-backed lending business, focusing on the customer concentration risk. The Group also closely monitors the daily liquidity and quality of underlying securities as collateral and the repayment source of the borrowers.

BUSINESS DESCRIPTION

Institutional services business

The Group's institutional services business is composed of a market-leading investment banking platform, technology-enabled institutional investor services, and a balanced investment and trading business, providing comprehensive financial services to corporate and institutional clients.

Investment Banking

Investment banking business primarily consists of financial advisory, equity underwriting, debt underwriting and OTC business.

The Group's investment banking business is a leading force in its full-service business platform. Leveraging its sector and product expertise and proven financial advisory capability, the Group is able to offer customised investment banking services to corporate clients throughout their entire life cycle.

As the PRC economy continues to transform, the Group is best positioned to capturing the most valuable business opportunities based on its long-term focus on strategic and emerging sectors. The Group is committed to active participation in industry consolidation and selectively engaging clients with high growth potential. The Group intends to seize the opportunities arising from the reforms of the PRC securities industry, and development in new economy sectors, such as TMT, healthcare, consumer, financial technology, environmental protection and new energy, along with the upgrade and transition of the PRC economy.

Financial Advisory

The Group's M&A advisory team was established in 2004, the first in the PRC securities industry. The Group believes that "Huatai United" is the most recognised investment banking brand in the PRC M&A market, with deep industry insight that leads the M&A market trends in China, which is evidenced by the following:

- In terms of the number of domestic M&A transactions, the Group ranked first in mainland China and Hong Kong in 2018, according to Mergermarket. Its experience in substantial number of transactions has provided a solid foundation for its stable and outstanding growth.
- In terms of the transaction value of CSRC-approved M&A in 2018, the Group ranked first among PRC securities firms.
- In terms of the net revenue from M&A advisory business, the Group ranked first among PRC securities firms for four consecutive years from 2014 to 2017, according to the Securities Association of China.

BUSINESS DESCRIPTION

The following table sets out certain information on the CSRC-approved M&A transactions advised by the Group for the periods indicated:

	Year ended 31 December						Three months ended 31 March			
	2016		2017		2018		2018		2019	
	Number of transactions	Transaction value (RMB in millions)	Number of transactions	Transaction value (RMB in millions)	Number of transactions	Transaction value (RMB in millions)	Number of transactions	Transaction value (RMB in millions)	Number of transactions	Transaction value (RMB in millions)
Initial announcement made ⁽¹⁾	41	213,651	28	102,268	40	141,771	8	9,853	9	106,951
CSRC approval obtained ⁽²⁾	21	188,953	11	41,304	15	110,427	6	60,472	3	2,286

(1) Means the first public announcement has been made by a listed company to disclose its proposed M&A transaction to the market. After the stage of initial announcement, an M&A transaction requires various corporate and regulatory approvals in order to proceed.

(2) Means the M&A transaction has been approved by the CSRC.

The following table sets out some landmark M&A transactions in which the Group acted as a financial advisor for the periods indicated:

Year	Client	Transaction Value (RMB in billions)	Transaction Highlights
2018	Offcn Education	18.5	The first education company to be listed by reverse merger, and become the largest education company in A-share market
2018	QuMei	5.1	Acted as financial advisor supported by Huatai Purple Gold Investment and successfully closing tender offering for all shares in Ekornes ASA (Norway's largest furniture maker)
2018	Baidu	12.0	Facilitated Baidu's artificial intelligence and fintech strategy and completed a spin-off and private capital raising from global investors
2018	360	50.4	Successful overseas privatisation and the largest A share listing of an internet company
2017	SF Express	43.3	Restructuring and A share listing of SF Express, largest domestic reverse takeover deal of the year
2017	Zotye Auto	11.6	Restructuring and capital raising to invest in the research and development of new energy vehicles
2017	Minmetals Capital	18.5	Group restructuring and listing of Minmetals Capital to build a comprehensive financial and industrial investment platform
2017	Health 100	2.7	Staged acquisition of Ciming by Health 100 to reshape the competitive landscape in the private physical examination industry
2016	Xiwang Food	5.0	Acquisition of North America's leading nutrition provider Iovate with innovative deal structure
2016	BTG Hotels	11.0	BTG Hotels' acquisition of Home Inns through innovative cross-border equity swap
2015	China Yangtze Power	79.7	Asset restructuring of China Yangtze Power and its associated companies; introducing long-term investors
2015	Shenwan Hongyuan Group	72.2	Merger of Shenwan Securities and Hongyuan Securities, a milestone and the largest M&A transaction for the PRC securities industry to date

BUSINESS DESCRIPTION

The Group's M&A-focused financial advisory business is the core competence of its investment banking business. The Group's M&A practise adopts market-oriented approach and assists its clients to achieve strategic expansion and industry consolidation. The Group believes that its outstanding performance in M&A advisory business enables it to provide value-add beyond ordinary investment banking services, which allows it to gain client loyalty and create synergies with other business lines.

Equity Underwriting

The Group's equity underwriting services include IPOs and follow-on offerings (such as private placement and rights issue), for corporate clients in China. From 2016 to the first quarter of 2019, the Group acted as the lead underwriter for 189 equity transactions in China, raising an aggregate of RMB437.1 billion.

The following table sets forth a breakdown of equity financing transactions by type in which the Group acted as a lead underwriter:

		Year ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
As a lead underwriter						
IPOs	Number of issues	7	17	9	3	—
	Amount underwritten (<i>RMB in millions</i>)	11,078	7,129	18,775	5,138	—
Follow-on offerings ⁽¹⁾	Number of issues	67	53	30	9	6
	Amount underwritten (<i>RMB in millions</i>)	146,791	104,004	119,692	64,372	29,622

Source: Wind Info, as at 31 March 2019

(1) Including private placement, rights issue, preferred shares, convertible bonds and exchangeable bonds

The Group served a wide range of clients, especially industry leaders, in its equity underwriting business, including large state-owned enterprises and well-known privately owned enterprises.

BUSINESS DESCRIPTION

The following table sets out certain major equity underwriting offerings for the periods indicated:

Year	Issuer	Offering Size (RMB in millions)	The Group's Roles	Transaction Highlights
2018	Avary Holding	3,714	Sponsor and Lead Underwriter	The first spin-off and A share IPO of a Taiwan public company
2018	Mindray	5,934	Sponsor and Joint Lead Underwriter	The largest IPO landing A share in the history of the GEM
2018	WuXi AppTec	2,300	Sponsor and Lead Underwriter	The first US de-listing and A share IPO of a healthcare company
2018	Jiangsu Financial Leasing	4,000	Sponsor and Lead Underwriter	The first A share IPO of a financial leasing company
2018	Yujiahui	858	Sponsor and Lead Underwriter	The first A share IPO of an e-commerce company
2017	Ireader Technology	166	Sponsor and Lead Underwriter	The first A share IPO of an e-reading platform
2017	Industrial Bank	26,000	Sponsor and Lead Underwriter	The second largest private placement in the A share market
2017	Bank of Jiangsu	20,000	Joint Sponsor and Joint Lead Underwriter	The largest preferred share offering in China of the year

The Group seized the opportunities brought by the launch of the Sci-Tech Innovation Board and further expanded its underwriting businesses in industries such as IT, healthcare, new materials and high-end manufacture. From 1 January 2019 until 22 May 2019, the Group filed nine IPO applications to the Sci-Tech Innovation Board of the Shanghai Stock Exchange.

Debt Underwriting

The Group has a full-licence debt underwriting business which covers enterprise bonds under NDRC, corporate bonds under the CSRC, debt financing instruments of non-financial enterprises under NAFMII, financial institution bonds under PBOC and asset-backed securities. The Group is a syndicate member of treasury bonds issued by the MOF and financial institution bonds issued by China Development Bank and the Import-Export Bank of China. From 2016 to the first quarter of 2019, the Group acted as the lead underwriter for a total of 1,258 debt offerings, raising an aggregate of RMB679.6 billion for its clients.

BUSINESS DESCRIPTION

The following table sets forth a breakdown of debt financing transactions by type in which the Group acted as a lead underwriter:

		Year ended 31 December			Three months ended 31 March	
		2016	2017	2018	2018	2019
As a lead underwriter						
Financial institution bonds	Number of transactions	18	27	23	3	8
under PBOC	Amount underwritten (RMB in millions)	57,715	77,022	37,200	4,480	14,380
Corporate bonds under	Number of transactions	77	55	93	10	16
CSRC	Amount underwritten (RMB in millions)	64,738	36,423	51,824	5,987	17,736
Enterprise bonds under	Number of transactions	5	4	2	—	1
NDRC	Amount underwritten (RMB in millions)	5,300	5,250	2,600	—	525
Debt financing instruments for non-financial enterprises under	Number of transactions	27	59	53	12	19
NAFMII	Amount underwritten (RMB in millions)	19,855	23,295	27,087	6,451	10,309
Asset-backed securities . .	Number of transactions	145	175	192	33	40
	Amount underwritten (RMB in millions)	46,882	58,429	80,100	12,588	20,751
Others ⁽¹⁾	Number of transactions	2	9	69	4	139
	Amount underwritten (RMB in millions)	3,333	1,180	5,530	—	12,115

Source: Wind Info, as at 20 May 2019

(1) Including treasury bonds, local government bonds, financial institution bonds issued by policy banks and bonds issued by government-backed agencies

In recent years, the Group has expanded its client base from local state-owned enterprises to large- and medium-sized central government-owned enterprises, state-owned enterprises and financial institutions.

The following table sets out certain major debt underwriting offerings for the periods indicated:

Period	Issuer	Offering Size (RMB in millions)	The Group's Roles	Transaction Highlights
2016-2018	Shanghai Pudong Development Bank	122,747	Joint Lead Underwriter/ Joint Lead Bookrunner	A number of financial institution bonds and ABS issuances, including the first green financial institution bond in China
2017-2018	China Construction Bank	97,807	Joint Lead Underwriter	Eleven ABS issuances
2017-2018	China Merchants Bank	26,055	Joint Lead Underwriter	Three ABS issuances, awarded one of the best ABS deals of New Fortune Awards in 2018
2015-2018	State Power Investment Corporation Limited	83,500	Joint Lead Underwriter/ Joint Lead Bookrunner	31 bond issuances including the first state-owned enterprise renewable corporate bond in China
2015-2018	Far Eastern Leasing	20,824	Joint Lead Underwriter/ Joint Lead Bookrunner	3 ABS issuances and 4 issuances of corporate bonds

BUSINESS DESCRIPTION

Period	Issuer	Offering Size (RMB in millions)	The Group's Roles	Transaction Highlights
2017	China Communications Construction Company	16,000	Joint Lead Underwriter	The largest exchangeable bond issuance to date in China
2018	Beijing Infrastructure Investment	16,000	Joint Lead Underwriter	The first public issuance of corporate bonds by a rail transit corporation in China
2018	Suning Appliance Group	3,492	Joint Lead Underwriter	One of the best ABS deals of New Fortune Awards in 2018

OTC Business

The Group provides small and medium enterprise clients with NEEQ listing and follow-on financing services. As at 31 March 2019, the Group recommended a total of 44 companies for share quotation and transfer on the NEEQ. In addition, the Group actively arranges follow-on financing for listed companies on the NEEQ.

Institutional Investor Services

The Group provides client-centric comprehensive institutional investor services, covering prime brokerage and research. Through various digital platforms, the Group is able to provide institutional clients with end-to-end financial solutions, including market data and analytics, trade execution and risk management.

The Group has a designated institutional sales team, covering mutual funds, insurance companies, private investment funds, trust companies, commercial banks and NSSF. As at 31 March 2019, the Group served 120 mutual funds and 180 insurance companies. In 2018, the transaction volume of trading seat leasing for mutual funds was RMB445 billion.

Prime Brokerage

The Group's prime brokerage business primarily provides asset custody and administration services, including settlement, clearing, reporting and valuation, to mutual funds, private investment funds and various types of asset management schemes. In addition, margin financing and securities lending, financial product sales and other value-added services are also available to the prime brokerage clients.

As at 31 March 2019, the Group had provided custody services for 2,874 products with a total market value of RMB90.1 billion, and provided administration services for 3,793 products with a total market value of RMB1,098.3 billion.

Research

The Group provides various professional research services for institutional clients, including mutual fund management companies, private investment fund management companies, QFII, NSSF, trust companies, asset management companies, RQFII, and finance companies.

BUSINESS DESCRIPTION

As at 31 March 2019, the Group's research team had 140 members and 99% of them hold master's degrees or above. The Group's research team provides regular research reports and corporate updates to its institutional clients to help them identify and evaluate investment opportunities. The Group's broad scope of research covers macro-economic analysis, investment strategies, industry and company research. The Group's equity research covers 28 industries and 573 A share companies in China. The Group is one of the few PRC securities firms whose research capability is well-recognised in both domestic and Hong Kong markets.

Investment and Trading

The Group's investment and trading business primarily consists of equity trading, FICC trading and OTC derivatives. The Group engages in the trading of equity and fixed-income securities and other financial instruments for its own account and applies advanced trading techniques for mitigating investment risks and improving return. To meet its clients' investment, financing and risk management needs, the Group also conducts market making and offers OTC derivative products.

Equity Trading

The Group engages in the investment and trading of stocks, ETFs and derivatives and also market-making services for exchange-traded and OTC financial instruments.

The Group's investment and research platform helps facilitate investment decisions based on big data-enabled market monitoring system to seek stable risk-adjusted returns to capture diversified investment opportunities in selected sectors and stocks. The Group utilises cutting-edge data analytics and advanced algorithm to increase efficiency in discovering more investment opportunities and detecting risks. In addition, the Group has actively engaged in hedging and quantitative trading and developed multiple strategies, including event-driven arbitrage, alpha hedging, statistical arbitrage and stock strategy trading.

According to the Shanghai Stock Exchange, the Group is well-recognised as a market leader in providing market making services for ETF options.

FICC

The Group engages in the trading of various types of fixed-income securities. The Group also trades derivative instruments, principally interest rate swaps and treasury bond futures, to mitigate market and interest rate exposure in its fixed-income trading. The Group has conducted FICC research and developed various trading strategies to identify opportunities with attractive risk and return profile across varying market conditions.

The Group also engages in market-making services in the interbank bond market, covering all categories of bonds. The Group developed a proprietary Credit Analysis and Management System, which is an intelligent investment and trading platform based on data analytics to improve the Group's credit asset pricing capabilities. The Group has been expanding its FICC investment and trading business to include commodities and foreign currencies.

OTC Derivatives

The Group offers and trades OTC derivatives, mainly including OTC options, equity return swaps, structured notes and cross-border derivatives. The underlying securities of the Group's OTC

BUSINESS DESCRIPTION

derivatives include global indices, stocks, funds, commodities and fixed-income products. The Group is licensed to conduct CSRC-approved cross-border derivatives business and OTC options trading. Leveraging its cross-border franchise, risk management expertise, and trading and structuring capabilities, the Group is well-positioned to capture the emerging opportunities from the growth of the PRC OTC market.

In addition, Huatai Futures conducts OTC commodity options business that covers 35 types of commodities. The Group's OTC commodity options business accounted for more than 32.4% of the market share as at 31 March 2019 according to China Futures Association.

Investment Management

The Group's investment management business consists of securities firm asset management, private equity fund management and mutual fund management. It provides securities firm asset management services and develops asset management products through Huatai Securities Asset Management, its wholly-owned subsidiary. The Group operates its private equity fund management business through Huatai Purple Gold Investment, its wholly-owned subsidiary. The Group also holds non-controlling equity interests in two fund management companies, China Southern Asset Management and Huatai-PineBridge.

Securities Firm Asset Management Services

The Group provides securities firm asset management services and develops asset management products based on its clients' asset size and needs, and consistently ranks among the industry leaders.

The following table sets forth a breakdown by product type of the AUM of the Group's asset management schemes as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
	(RMB in billions)			
Collective asset management scheme	129.5	109.0	112.8	137.9
Targeted asset management scheme	718.7	740.9	582.7	768.6
Specialised asset management scheme	35.1	62.6	81.3	83.9
Mutual fund management scheme	—	5.2	5.9	5.5
Total	883.3	917.7	782.7	995.9

The Group's securities firm asset management services primarily include:

- *Collective asset management schemes:* The Group manages clients' assets for a group of clients through designated accounts pursuant to applicable laws and in accordance with the collective asset management contracts. As at 31 March 2019, the Group had 103 outstanding collective asset management schemes, covering equity market, bond market, money market and hybrid funds, with a total AUM of RMB137.9 billion. For collective asset management schemes, the Group generally charges annual management fees as a percentage of the AUM, and it also charges performance fees on certain schemes.
- *Targeted asset management schemes:* The Group manages clients' assets for a single client through a designated account pursuant to the terms of bilateral contracts. Guided by specific investment guidelines, the Group provides customised asset management services

BUSINESS DESCRIPTION

for its clients. As at 31 March 2019, the AUM of its targeted asset management schemes amounted to RMB768.6 billion.

- *Specialised asset management schemes:* The Group manages clients' certain assets for a specialised purpose. Specialised asset management is a competitive advantage of the Group. Many products led the innovations in the industry, making the Group one of the top performers in this field. The Group is an industry leader in structuring specialised asset management schemes, and pioneered a number of innovative types of underlying assets, such as affordable housing rental income, bank bill receivables, insurance policy pledged loan receivables, and margin loan receivables. In 2018, the transaction value of ABS issuances was RMB63.9 billion, ranking fourth among PRC securities firms according to Wind Info. As at 31 March 2019, the Group had 76 outstanding specialised asset management schemes with a total AUM of RMB83.9 billion.

The following table sets out the details of the Group's key products of specialised asset management business:

Year	Schemes	Transaction Highlights
2018	Huatai Securities Asset Management-Lenovo Factoring and Kaola Factoring creditor's rights ABS	First domestic modern supply chain finance ABS
2018	JD Finance-Huatai Securities Asset Management-No.19 JD Baitiao account receivable creditor's rights ABS	First global consortium blockchain-based ABS
2018	Huatai Jiayue-Suning Yunxin-1 ABS	First commercial real estate securitisation product
2018	Huatai-Ctrip Finance Naquhua-1 ABS	First domestic "Internet + Tourism" industry ABS
2018	Huatai Securities Asset Management-China Aircraft Leasing Group-1 ABS	First domestic foreign currency denominated ABS and first domestic aircraft leasing ABS
2017	Huatai Securities Asset Management-Poly Property-1 ABS	First CMBS cooperating with central state-owned property developer
2016	Huifu-Huatai Securities Asset Management-China resource reuse fund receivables ABS	First central SOE green ABS and first solid waste treatment ABS
2016	JD Finance-Huatai Securities Asset Management 2016-1 factoring receivables ABS	First domestic Internet factoring business ABS
2016	China Taiping insurance policy pledged loan 2016-1 ABS	First domestic insurance policy pledged loan ABS
2016	Huatai Securities Asset Management-Bank of Jiangsu Rongyuan-1 ABS	First domestic bank bill income rights ABS

- *Mutual fund management schemes:* The Group manages client's assets through mutual funds. The Group obtained the mutual fund licence in 2016, and set up six mutual funds, with a total AUM of RMB5.5 billion as at 31 March 2019.

BUSINESS DESCRIPTION

Private Equity Fund Management

Huatai Purple Gold Investment (and its subsidiaries) managed 26 private equity funds as at 31 March 2019. As at the same date, the total amount of paid-in contribution was RMB41.3 billion. The private equity funds include industrial funds, growth funds and acquisition funds, focusing on new economy sectors, such as healthcare, TMT, smart manufacturing, as well as industrial upgrade.

As at 31 March 2019, Huatai Purple Gold Investment had invested in 151 projects with a total investment amount of RMB22.1 billion.

Fund Management Companies

The Group has two associated fund management companies, namely China Southern Asset Management and Huatai-PineBridge.

The Company is the largest shareholder of China Southern Asset Management, holding 45.0% of its equity interest. Established in 1998, China Southern Asset Management is one of the first fund management companies established in China, offering a diverse range of fund products. As at 31 March 2019, China Southern Asset Management had a total AUM of RMB878.2 billion, including 185 mutual funds with AUM of RMB616.9 billion.

Huatai-PineBridge is a Sino-foreign joint venture fund management company in which the Company and PineBridge Investments LLC each holds 49.0% of equity interest. Huatai-PineBridge is one of the first Sino-foreign joint venture companies to offer ETF products and the manager of the first cross-exchange ETF in China, namely Huatai-PineBridge Shanghai-Shenzhen 300 ETF. As at 31 March 2019, Huatai-PineBridge had a total AUM of RMB112.5 billion, including 56 mutual funds with AUM of RMB101.0 billion.

International Business

The Company develops international business through its wholly owned subsidiary Huatai International with footprints covering Hong Kong and the US. In 2018, the Group's revenue and other income from international business amounted to approximately RMB3,115.5 million, accounting for 11.5% of its total revenue and other income.

Business in Hong Kong

The Group's businesses in Hong Kong are carried out mainly by Huatai Financial Holdings, a wholly owned subsidiary of Huatai International. Huatai Financial Holdings is a SFC licensed entity that has been focusing on Hong Kong market since 2006. Leveraging the Group's domestic client network, Huatai Financial Holdings has built a full-licence business platform providing cross border financial services.

Huatai Financial Holdings operates in the following seven business segments:

- *Investment Banking*—By collaborating with Huatai United's domestic franchise, Huatai Financial Holdings provides both Chinese and international corporate clients with equity and debt underwriting, and M&A advisory services. In 2018, Huatai Financial Holdings participated in a number of transactions as joint bookrunner or more senior roles and helped its clients raise an aggregate of HKD29.3 billion from IPOs, HKD3.9 billion from follow-on offerings and US\$2.7 billion from debt offerings.

BUSINESS DESCRIPTION

- *Private Wealth Management & Retail Brokerage*—Leveraging the Group’s client base and fintech capabilities, Huatai Financial Holdings offers customers brokerage services and wealth management services across different asset classes globally.
- *Research and Equity Sales*—Utilising the Group’s A share research team’s local market knowhow and global reach, Huatai Financial Holdings provides global institutional clients with equity sales and trading services, supported by its cross-market research covering most of the Shanghai-Hong Kong Connect and Shenzhen-Hong Kong Connect securities.
- *FICC*—Capitalising on the trend of RMB internationalisation, Huatai Financial Holdings offers FICC solutions including sales, trading and market making services to Chinese and international financial institutions, corporates, asset managers and hedge funds.
- *Cross-Border and Structured Finance*—Huatai Financial Holdings provides customised financing solutions to satisfy clients’ financing needs in leveraged acquisition, strategic M&As, pre-IPO financing, business expansion, capital restructuring, and other commercial and investment activities.
- *Equity Derivatives*—Huatai Financial Holdings provides clients with tailor-made cross-border equity derivatives products and solutions to achieve global asset allocation.
- *Asset Management*—Huatai Financial Holdings provides international investors with portfolio and fund management services including QFII, RQFII, Bond Connect and other related products.

Multi-segment business development enables Huatai Financial Holdings to experience a steady growth in Hong Kong and has largely improved its resilience towards market volatility. Huatai Financial Holdings ranked ninth (fourth among PRC securities firms) in terms of both the number of IPO sponsorship transactions with offering size larger than US\$50 million, and total fundraising volume in Hong Kong in 2018 by Dealogic. Huatai Financial Holdings won a number of awards such as the “Triple A Country Awards 2018 (Hong Kong Area)”, “Best Corporate and Institutional Adviser—Domestic (securities)”, “Best High Yield Bond”, “Best Syndicated Loan/Acquisition Finance” from the Asset Magazine, and “Asian Lender of the Year” of the 2018 PDI Annual Awards. Meanwhile, Huatai Financial Holdings ranked second among all Chinese and international investment banks in Institutional Investor All-China survey 2018 with 19 prizes (for the research team of Huatai Financial Holdings).

AssetMark

The Company acquired AssetMark in October 2016. AssetMark is a leading turnkey asset management programme in the US market as a third party financial service provider that offers outsourced wealth management and technology solutions to independent financial advisors and their clients. AssetMark adheres to a combination of curated investment products, compelling technology platforms, and high quality client services. AssetMark’s fully-integrated technology platform provides advisors with access to a wide range of highly-automated processes including basic financial planning, portfolio construction, new account opening, client billing, investor reporting, progress to goal analysis and client activity tracking, and its curated investment platform provides independent advisors with a curated set of thoroughly vetted specialty and large third-party and proprietary investment providers. As at 30 September 2018, AssetMark’s market share in the turnkey asset management programme industry in the US was 10.2%, ranking third according to Cerulli Associates, an asset management and distribution analytics firm. The acquisition of AssetMark helped the Group establish presence in the

BUSINESS DESCRIPTION

US, enhanced the Group's brand awareness and reputation, and strengthened its overall international competitiveness. On 23 April 2019, AssetMark submitted on a confidential basis to the United States Securities and Exchange Commission (the "SEC") a draft registration statement for the possible registered public offering in the United States of the shares of AssetMark. The proposed spin-off and separate listing of AssetMark is subject to, among other things, prevailing market conditions and the obtaining of approvals from the relevant authorities, including the CSRC and the SEC. Following the completion of the proposed spin-off, the Company will retain control over AssetMark, which will remain as a subsidiary of the Company.

Leveraging its abundant clients resources, products and expertise as well as its sound research capabilities in China, the Group is strategically expanding its international operations and utilising its international business platform to meet its clients' growing demands for global financial services driven by China's economic transformation and development. The Group believes that its overseas platform could create greater value for its existing and prospective domestic and international clients.

Market Position and Competition

As at 31 March 2019, there were 131 registered securities firms in China. The PRC securities industry is highly regulated and PRC securities firms are subject to extensive regulatory requirements on various perspectives, including business licences, scope of products and services, business development, compliance and risk management. Competition in the PRC securities industry has been and is likely to remain intense. In 2018, according to SAC's statistics and securities firms' public filings, the top ten securities firms in China constituted an aggregate of 43.6% and 70.7% of the total market share in China in terms of revenue and net profit, respectively. In addition, according to Wind Info, the Group ranked fourth among securities firms in China in terms of net assets as at 31 December 2018, ranked fifth in terms of total assets as at 31 December 2018, ranked fifth in terms of revenue in 2018, and ranked fourth in terms of net profit attributable to shareholders of the company in 2018.

For the securities brokerage business, the Group competes primarily with other PRC securities firms, such as CITIC Securities Co., Ltd., Guotai Junan Securities Co., Ltd., Haitong Securities Co., Ltd., and GF Securities Co., Ltd. in terms of pricing, client engagement and value-added services. For the investment banking business, the Group competes primarily with other PRC and Sino-foreign joint venture securities firms as well as PRC commercial banks in terms of brand recognition, underwriting and distribution capacity, service quality, execution capability, financial strength and pricing. For the asset management business, the Group competes primarily with fund management companies, commercial banks, insurance companies, trust companies and other securities firms in China in terms of investment performance, the range of products, and quality of client service.

Some of its competitors may enjoy certain competitive advantages over the Group. In addition, with the deregulation and internationalisation of the PRC securities industry, more competitors are seeking to enter or expand in the market, including large foreign banks. The Group believes that the financial service industry in China is becoming increasingly competitive, which will accelerate the transitional innovation and differentiated development of PRC securities firms.

BUSINESS DESCRIPTION

Employees

The Group believes that its professional workforce is the foundation of its long-term growth. The following table sets forth a breakdown of the Group's employees by business function as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
Wealth management	4,647	4,965	5,731	5,717
Investment banking	511	530	588	615
Asset management	165	238	261	285
Investment and trading	248	250	272	269
Research	208	260	285	305
Compliance and risk management	261	340	422	429
IT	352	538	740	757
Finance	210	258	258	258
Administration	201	400	416	433
Others	164	356	459	455
Total	6,967	8,135	9,432	9,523

In compliance with relevant laws and regulations in China, the Group has signed an employment contract with each employee. The Group provides full welfare packages to employees, including paid annual leave, basic pension insurance, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing provident funds.

The Group's sustainable growth and expansion also depends on its employees' performance and loyalty. The Group has adopted a market-driven remuneration structure that links employees' remuneration with their performance. Its performance evaluation system provides the basis for human resource decisions such as remuneration adjustments, promotion and talent cultivation. In addition, the Group provides its employees with supplementary compensation benefits, such as commercial health insurance and family care allowances. The Group has also established enterprise pension plan to maintain employees' standards of living after retirement.

In order to improve the professional skills of its employees, the Group has established a comprehensive and diverse training system, providing its employees with both internal and external training programmes. The Group's internal training programmes consist of a combination of on-site, video conference and online training. The Group adopts an e-learning platform, "Huatai Online College", with mandatory requirements for each employee to complete 24 credits each year. In addition, the Group sponsors its senior management team and key employees to attend training and exchange programmes at well-known universities or institutions in China and overseas.

The Group is actively involved in campus recruiting, providing graduates and students with employment and internship opportunities. As at 31 March 2019, employees under the age of 30 accounted for 38.4% of the Group's employees. The Group has also recruited talents with diverse backgrounds, including those from international investment banks and renowned technology companies.

Information Technology

As an industry leader in technology among the PRC securities firms, the Group has invested heavily in research and development of advanced technology tools and updated its technology

BUSINESS DESCRIPTION

infrastructure in recent years to better meet the challenges in this new era. For example, the Group has developed a series of innovative and influential IT products, such as the wealth management mobile app ZhangLe Fortune Path, the professional investor service platform MATIC, and the market data product Insight. In 2018, the Company's R&D expenses amounted to RMB1,085.0 million. To support the strategic transformation of Group's business, the Group's technology infrastructure is also focused on streamlining middle and back office operations, and enhancing compliance and risk management capabilities. Some of the key technology systems developed and deployed by the Group include:

- *Wealth management:* The Group has developed the popular ZhangLe Fortune Path mobile app. Based on data analytics, this mobile app can maximise the value of massive data to achieve targeted marketing and provide investment tools to offer customers more efficient investment experience, enhancing customer activity and loyalty. It was one of the first securities firms to establish intelligent account service and membership programme. Also, the Group adopts a leading Customer Relationship Management system and a digital operation and management system internally to support its wealth management advisors. The digital operation and management system has both mobile and PC-based versions, and is actively used by 99% of the Group's wealth management advisors on a daily basis.
- *Institutional services:* The Group has developed a number of proprietary IT tools to cater to the professional investment and trading needs, including a professional investor service platform MATIC, a big data and AI quantitative research platform XQuant, and market data product Insight. MATIC is a digital terminal that provides professional investors with one-stop investment and trading services. Imbedded with the low-latency and data-rich quantitative research platform, XQuant, and high-frequency real time market data product, Insight, MATIC is an advanced platform that facilitates institutional clients to capture market opportunities. The Group has also developed a Credit Analysis and Management System, increasing the risk recognition and control capabilities for credit assets. The system increases efficiency and accuracy in searching through varied investment opportunities and helps achieve both profitability and stability.
- *Compliance and risk control:* The Group has established an Enterprise Risk Management Platform, enhancing the Group's risk monitoring, warning and prevention capabilities. This platform is a centralised comprehensive risk management system that analyses and displays various professional risk information data across different businesses and subsidiaries of the Group, revealing aggregate risks presented by all segments of the Group. Through the monitoring of more than 400 risk indicators, the Group has established an effective risk indicator alerting system.
- *Data security:* By using artificial intelligence technology, the Group has strengthened its internal controls on data security. The Group has developed Titan, an active and responsive information security product to help monitor the data security within the Group. Through real time detection of abnormal activities based on big data, Titan adopts user entity behaviour analysis to identify abnormal operation. Titan also actively monitors the user traffic to discover potential external cyber attacks, increasing effective detection of and responses to security threats.

The Group has established primary and secondary data centres in Nanjing, functioning independently. In addition, the Group has another disaster recovery site in Shenzhen which will take over in case of extreme events.

BUSINESS DESCRIPTION

The Group's technology success depends on its research and development capabilities. The Group has around 757 IT engineers, programmers and data scientists, which accounted for around 7.9% of its total staff as at 31 March 2019. The Group established a digital innovation lab in April 2017, leading the innovation of various IT and digital products. The digital innovation lab is tasked with evaluating cutting-edge fintech innovations, such as artificial intelligence, big data, and blockchain, and addressing technical challenges, such as ultra-low-latency market data infrastructure and biological identification. As an innovative product of the lab, ultra-low-latency market data infrastructure reduces the responding time of market data handling from sub second level to low microsecond level, even nanosecond level. The infrastructure is actively used in algorithm trading, market making, proprietary trading, and primary brokerage businesses. This lab also works on building a firm-wide innovative culture through collaboration of different departments within the Group.

Insurance

The Group maintains insurance coverage for IT systems, motor vehicles, and owned buildings. Consistent with customary industry practice in China, the Group does not maintain any business interruption insurance.

The Group believes that it has maintained such insurance coverage as it considers necessary and sufficient for its operations and customary for the industry in which the Group operates. Moreover, the Group's policies are subject to standard deductibles, exclusions and limitations. Therefore, insurance might not necessarily cover all losses incurred by the Group and it cannot provide any assurance that it will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, its insurance policies.

All of the Group's insurance policies are underwritten with reputable insurance providers and reviewed annually.

Recent Development

On 22 April 2019, the Company publicly issued a three-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.80% to qualified investors. On 25 April 2019, the Company issued short-term debt instruments of RMB3 billion, bearing interest at 3.00%. In May 2019, the Company's wholly-owned subsidiary Pioneer Reward Limited issued offshore bonds with a principal amount of US\$500 million guaranteed by the Company, with an annual interest rate of 3.375%, to refinance the Group's bonds issued in 2014 and supplement the Group's working capital. On 27 May 2019, the Company non-publicly issued a three-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.94% to qualified investors.

REGULATION

Overview

The Group conducts securities business in China, which is subject to the applicable PRC laws, administrative regulations, departmental regulations and other regulatory documents. This section summarises the principal PRC regulations relevant to the Group and its business and operation. However, due to the recent reforms in the securities and financial sectors, the regulations therein have been undergoing constant changes, and some of those changes may in turn have significant and substantial impact on the Group.

Major Regulatory Authorities and Relevant Organisations

The China Securities Regulatory Commission

The CSRC is authorised by the State Council to implement centralised and unified supervision and management over the securities and futures markets nationwide, maintains the order of the securities and futures markets, promulgate and implement relevant regulations and standards to ensure the lawful operations of the capital market in China.

The Securities Association of China

The Securities Association of China (“SAC”) is a non-profit self-regulatory social organisation with legal person status of the securities industry. It is organised under the guidance and supervision of CSRC. Securities firms are required to become members of SAC. Main duties of SAC include promulgating and implementing self-regulatory rules and industry standards, regulating the securities practitioners, as well as the supervision and inspection of the conducts of its members.

The China Futures Association

The China Futures Association (“CFA”) is a non-profit self-regulatory social organisation with legal person status of the futures industry. It is organised under the guidance and supervision of CSRC. Futures companies and other institutions engaged in futures trading are required to become members of CFA. Main duties of CFA include promulgating and implementing self-regulatory rules and industry standards, regulating the futures practitioners, as well as the supervision and inspection of the conducts of its members.

The Asset Management Association of China

The Asset Management Association of China (“AMAC”) is a non-profit self-regulatory social organisation with legal person status of the asset management and securities investment fund industry. It is organised under the guidance and supervision of CSRC. Fund managers and fund custodians are required to become members of AMAC. Main duties of AMAC include promulgating and implementing self-regulatory rules and industry standards, regulating fund and asset management practitioners, as well as the supervision and inspection of the practices of its members.

Stock Exchange

A stock exchange is a non-profit self-regulatory legal entity which provides venues and facilities for centralised trading of securities and organises and supervises trading of securities. Shanghai Stock Exchange and Shenzhen Stock Exchange are two major stock exchanges in the PRC.

REGULATION

Futures Exchange

A futures exchange is a non-profit self-regulatory legal entity which provides venues and facilities for centralised trading of futures, organises and supervises trading of futures, and exercises self-regulatory management according to its articles of association and trading rules.

Other Organisations

Other organisations relevant to the Group's business and operating activities primarily include People's Bank of China ("PBOC"), State Administration of Foreign Exchange ("SAFE"), China Securities Depository and Clearing Corporation Limited ("CSDC"), China Securities Investor Protection Fund Corporation Limited, China Futures Market Monitoring Centre Co. Ltd., China Securities Finance, National Association of Financial Market Institutional Investors and National Equities Exchange and Quotations Co., Ltd.

Approval on Material Changes of Securities Firms

According to the PRC Securities Law (中华人民共和国证券法) last amended in August 2014, the Regulations on Supervision and Administration of Securities Firms (证券公司监督管理条例) last amended in July 2014, the Decision on Authorisation of Local Offices to Review and Approve Certain Items Requiring Administrative Approval for Securities Institutions (关于授权派出机构审核部分证券机构行政许可事项的决定) effective March 2011, the Decision of the State Council in Relation to the Sixth Batch of Administrative Approval Items to be Cancelled or Adjusted (国务院关于第六批取消和调整行政审批项目的决定) effective September 2012 and the CSRC guidelines for administrative licencing, certain material changes of securities firms shall obtain prior approval from the CSRC or its local offices.

Material changes of securities firms subject to the CSRC's approval include, among others:

- change of business scope (other than such businesses authorised to be approved by the local offices of the CSRC);
- increase in the registered capital with material adjustment to the equity structure or decrease in registered capital of listed securities firms;
- change of any shareholder holding more than 5% of equity interest or any *de facto* controlling person(s) of listed securities firms, or change results in any share directly or indirectly controlled by foreign investors;
- merger, spin-off, cessation, dissolution and bankruptcy;
- establishment, acquisition of or equity investment in securities institutions offshore.

The local offices of the CSRC are authorised to review and approve, *inter alia*, the following material changes of securities firms:

- change of important provisions of the articles of association;
- establishment, acquisition or de-registration of securities branches;
- increase in the registered capital with material adjustment to the equity structure or decrease in registered capital of unlisted securities firms;
- change of any shareholder holding more than 5% of equity interest or any *de facto* controlling person(s) of unlisted securities firms;

REGULATION

- expansion or reduction of business scope to include or exclude securities brokerage, securities investment consultation, financial advisory related to securities trading and investment, proprietary trading, securities asset management and securities underwriting.

Corporate Governance and Risk Control of Securities Firms

Corporate Governance

The corporate governance of securities firms is primarily regulated by the PRC Company Law (中华人民共和国公司法) last amended in October 2018 and effective October 2018, the PRC Securities Law (中华人民共和国证券法), the Regulations on Supervision and Administration of Securities Firms (证券公司监督管理条例) effective July 2014, the Rules for Governance of Securities Firms (证券公司治理准则) effective January 2013, the Guidance for the Internal Control of Securities Firms (证券公司内部控制指引) effective December 2003, the Administrative Measures for the Compliance of Securities Firms and Securities Investment Fund Management Companies (证券公司和证券投资基金管理公司合规管理办法) effective October 2017, and the Administrative Measures for Information Technology Management of Securities Institutions (证券基金经营机构信息技术管理办法) effective June 2019.

Pursuant to the rules above, securities firms shall establish a sound corporate governance structure. The governance structure of securities firms shall include decision-making processes, rules of procedures, an efficient and strict business operation system, a sound and effective internal control and feedback system, and an effective incentive and restraint mechanism. The Board of Supervisors and independent directors shall fully exercise their supervision responsibilities and prevent the risk relating to manipulation by substantial shareholders and control by insiders. Securities firms engaging in more than two businesses among securities brokerage, asset management, margin financing and securities lending, and securities underwriting and sponsoring shall establish a remuneration and nomination committee, an audit committee and a risk control committee under the Board of Directors, among which the remuneration and nomination committee and the audit committee shall be chaired by independent directors. A securities firm shall have a chief compliance officer as a member of senior management, who directly reports to the Board of Directors, and appoint a senior manager with information technology background as its chief information officer.

The Administrative Measures on the Qualifications of Directors, Supervisors and Senior Managers of Securities Firms (证券公司董事、监事和高级管理人员任职资格监管办法) last amended in October 2012 sets forth the requirements on the qualifications of directors, supervisors and senior managers, who shall be approved by the local offices of the CSRC before performing the duties of such positions.

Risk Control

Securities firms shall maintain and report its risk indicators, including risk capital reserve, net capital and related ratio in compliance with the Administrative Measures on Risk Control Indicators of Securities Firms (证券公司风险控制指标管理办法) last amended in June 2016 and effective October 2016, the Calculation Standard for Risk Control Indicators of Securities Firms (证券公司风险控制指标计算标准规定) effective October 2016, and other regulations and regulatory documents promulgated by the CSRC. Securities firms shall identify, evaluate, monitor, handle and manage the overall risks including but not limited to liquidity risk, market risk, credit risk, operational risk and reputational risk in compliance with SAC rules on Overall Risk Management of Securities Firms (证券公司全面风险管理规范) last amended and effective December 2016 and the accompanying guidelines on liquidity risk management, stress testing and dynamic monitoring.

REGULATION

Regulatory Rating

Under the Regulations on Classification and Supervision of Securities Firms (证券公司分类监管规定) last amended in July 2017, the CSRC classifies the securities firms into eleven grades under five main classes from high to low levels, including class A (AAA, AA, A), class B (BBB, BB, B), class C (CCC, CC, C), class D and class E, known as regulatory rating, based on the capital adequacy, the risk management capability, market competitiveness and continuous compliance of securities firms.

Differentiated treatment would be applied to the securities firms on the basis of the rating results in the aspects of: 1) applying risk management indicators and risk reserve capital ratio; 2) allocating regulatory resources; 3) frequency of regulatory inspection; 4) approving new business and new business outlet; 5) offering and listing of shares; 5) launching new product pilot trial and promotion; and 6) payment ratio of investor protection fund.

Regulation on Business and Operation

According to the Regulations on Supervision and Administration of Securities Firms, the Interim Provisions on the Examination and Approval of Business Scope of Securities Firms (证券公司业务范围审批暂行规定) last amended in December 2017, securities firms shall conduct business within the scope approved by the CSRC. Principal types of business conducted by securities firms are as follow.

Securities and Futures Brokerage

According to the PRC Securities Law (中华人民共和国证券法) and the Regulations on Supervision and Administration of Securities Firms (证券公司监督管理条例), securities firms should examine the sufficiency of funds and securities in customers' accounts, and no purchase or sell shall be executed without sufficient funds or securities. The funds of customers shall be deposited in separate accounts opened in the name of each customer with a designated commercial bank. Securities firms shall not make discretionary trade orders on behalf of customers, select the types of securities, or decide on the trading volume or price in securities brokerage business and shall comply with detail requirements provided in the Provisions on Strengthening the Management of the Securities Brokerage Business (关于加强证券经纪业务管理的规定) effective May 2010.

The Regulations on the Administration of Futures Trading (期货交易管理条例) last amended in March 2017 set out a licencing system of futures market under the regulation of the CSRC. Licensed futures companies engage in futures brokerage business by trading in its own name on behalf of its customers. In practice, securities firms conduct futures brokerage through their futures subsidiary.

In addition, the CSRC promulgated the Measures for the Suitability Management of Securities and Futures Investors (证券期货投资者适当性管理办法) in December 2016, strengthen the regulation on securities firms, futures firms and other institutions, and emphasise the obligation of such institutions on suitability examination in business such as securities and futures brokerage.

Securities Investment Consulting

According to the Provisional Measures on Administration of Investment Consulting on Securities and Futures (证券、期货投资咨询管理暂行办法) effective April 1998, a firm engaging in the

REGULATION

securities investment consulting business shall have the licence granted by the CSRC. Professionals offering securities investment consulting services must obtain the securities investment consulting qualifications and serve at a licensed institution. According to the Interim Provisions on the Securities Investment Consulting Business (证券投资顾问业务暂行规定) effective January 2011, the CSRC and the SAC impose supervision and self-regulation on securities firms conducting investment consulting services. Securities firms and its professionals shall serve in good faith and shall not jeopardise the interest of costumers by acting in favour of the securities firms or their related parties, professionals or their affiliates, or any other specific customers.

Margin Financing and Securities Lending

Under the Administrative Measures on Margin Financing and Securities Lending of the Securities Firms (证券公司融资融券业务管理办法) last amended in July 2015, securities firms engaging in margin financing and securities lending business must meet the relevant conditions and obtain the licence from the CSRC. Securities firms shall open with securities registration and clearing agencies, in their own names, a special securities account for securities to be lent, a securities account designated for securities pledged by margin trading customers, a securities settlement account and a capital settlement account, and shall also open with commercial banks a special account designated for margin financing and a capital account designated for customer margins. Securities firms shall enter into custody agreements with customers and commercial banks for the custody and safekeeping of customer margins. A securities firm may only provide margin financing and securities lending business to qualified customers meeting certain requirements such as compliance with information request, investment experience and size and good trading record, and may not provide such services to its shareholders (excluding shareholders holding less than 5% of outstanding shares of listed securities firms) and affiliates. The aggregate amount of margin financing and securities lending shall not exceed 4 times of the securities firm's net capital.

Securities-backed Lending

Under the Measures on Business of Securities-backed Lending Transaction and Registration and Clearing (股票质押式回购交易及登记结算业务办法) last amended in January 2018 and effect from March 2018, Shanghai Stock Exchange and Shenzhen Stock Exchange conduct licence management on securities firms in securities-backed lending business. Securities firms shall establish a qualification examination system and engage business only with qualified customers. Several restrictions such as pledge rate and use of proceeds are introduced in the latest amendment imposing a strict regulation on such business.

Distribution of Securities Investment Funds

According to the Administrative Measures on Distribution of Securities Investment Funds (证券投资基金销售管理办法) effective June 2013, securities firms and other institutions, subject to satisfaction of the relevant requirements, may apply to the local office of the CSRC for licence on fund distribution. The CSRC imposes supervision on fund distribution business, and the SAC conduct self-regulation on the business and qualification examination on sales personnel. Fund distributors shall set up a comprehensive management system of fund investor accounts and capital accounts, deposit and withdrawal procedures as well as authorisation and approval systems for fund investors and a management system for sales suitability of funds. Fund distributors shall, in the process of distributing funds and relevant products, prioritise the interest of investors, and distribute products of different degrees of risks appropriate to the risk tolerance of investors.

REGULATION

Distribution of Financial Products

According to the Administrative Provisions on the Distribution of Financial Products by Securities Firms (证券公司代销金融产品管理规定) effective November 2012, securities firms engaging in distribution of financial products shall obtain licence from the local office of the CSRC. Prior to distributing any financial products, securities firms shall examine the qualifications of the provider of the financial product. When securities firms recommend and introduce financial products to customers, they shall obtain the basic information such as the customers' identities, asset and income conditions, financial knowledge, investment experience, investment objectives and risk preference in order to evaluate the suitability of the customers. Securities firms shall adopt appropriate methods to provide the customers with comprehensive, fair and accurate information and adequate explanation on the key risk characteristics of the proposed financial products.

Underwriting and Sponsoring

Under the Administrative Measures for the Sponsorship of Securities Offering and Listing (证券发行上市保荐业务管理办法) last amended in December 2017, securities firms shall satisfy the relevant requirements and acquire the sponsoring licence from the CSRC before engaging in sponsoring business. The Administrative Measures on Securities Issuance and Underwriting (证券发行与承销管理办法) last amended in June 2018, sets forth detailed provisions in such aspects of quotation and pricing, offering of securities, underwriting of securities and information disclosure by the issuers, securities firms and investors during their participation in securities issuance. As part of the recent reform of the A-share IPO system and the introduction of the Sci-Tech Innovation Board, specific rules on the issuance procedures, quotation and pricing and co-investment requirements are set forth in the Administrative Measures for the Registration of IPO Stocks on the Sci-Tech Innovation Board (科创板首次公开发行股票注册管理办法) effective March 2019, the SSE Implementation Rules on Securities Issuance and Underwriting on Sci-Tech Innovation Board (上海证券交易所科创板股票发行与承销实施办法) effective March 2019 and other related guidance. Securities firms shall also comply with the CSRC Guidelines on the Internal Control of Securities Firms Investment Banking Business (证券公司投资银行类业务内部控制指引) effective July 2018 in conducting investment banking business including, among others, underwriting and sponsoring.

Financial Advisory in the Mergers, Acquisitions and Reorganisations of Listed Companies

According to the Administrative Measures on Business of Financial Advisory in the Mergers, Acquisitions and Reorganisations of Listed Companies (上市公司并购重组财务顾问业务管理办法) effective August 2008, securities firms upon approval by the CSRC can provide financial advisory services in mergers, acquisitions and reorganisations for listed companies in compliance with the relevant requirements therein. The CSRC conduct licence management on such financial advisory business and supervises the practise of the financial advisors and their personnel. Securities firms engaged to act as independent financial advisors shall maintain their independence without any interest in the listed companies and comply with the requirements set in the Measures for the Administration of the Material Asset Restructurings of Listed Companies (上市公司重大资产重组管理办法) last amended in September 2016.

Research

According to the Interim Provisions on the Publication of Securities Research Reports (发布证券研究报告暂行规定) effective January 2011, the publication of securities research reports by securities firms and other securities investment consulting institutions shall comply with laws,

REGULATION

administrative regulations and relevant requirements therein, following the principles of independence, objectivity, fairness and prudence. Securities firms shall prevent conflicts of interest effectively and treat target securities fairly, and are prohibited from disseminating false, untrue and misleading information, or engaging or participating in insider dealing or securities market manipulation activities.

Custody for Funds

According to the Administrative Measures on the Business of Custody for Securities Investment Funds (证券投资基金托管业务管理办法) effective April 2013 and the Interim Provisions on the Business of Securities Investment Funds Custody by Non-bank Financial Institutions (非银行金融机构开展证券投资基金托管业务暂行规定) last amended in December 2017, securities firms shall obtain licence from the CSRC before engaging in the funds custody business. Securities firms shall establish an effective internal control system and manage the assets under custody separately from its proprietary assets and other custodial assets.

Proprietary Trading

Securities firms are allowed to trade certain financial products prescribed in the Guidelines on Proprietary Securities Trading Business of Securities Firms (证券公司证券自营业务指引) effective November 2005, Regulations on the Investment Scope of Proprietary Securities Business of Securities Firms and Relevant Matters (关于证券公司证券自营业务投资范围及有关事项的规定) last amended in November 2012, which promulgates a list of securities categories. Securities firms shall have the securities accounts under the firms' own names, trade by proprietary desks and subject to accounts management by non-proprietary trading departments. Securities firms shall comply with the CSRC requirements in respect of risk control indicators, including the proportion of the total value of proprietary securities to the net capital, the proportion of the value of a single security to the net capital, and the proportion of the quantity of a single security to the total outstanding volume thereof.

Besides, securities firms licensed to engage in proprietary trading business are allowed to trade in financial derivative products, while other securities firms are only allowed to purchase financial derivative products for hedging purpose.

Asset Management

According to the Management Measures for Private Equity Asset Management Business of Securities and Futures Operating Agencies (证券期货经营机构私募资产管理业务管理办法) effective October 2018, securities firms engaging in client asset management business shall meet the relevant requirements and acquire licence from the CSRC. Securities firms may provide targeted asset management services to a single client and collective asset management services for a group of clients.

According to Administrative Measures on Asset Securitization of Securities Firms and Subsidiaries of Fund Management Firms (证券公司及基金管理公司子公司资产证券化业务管理规定) effective November 2014 and its attached guidelines, securities firms with client asset management business licence are permitted to engage in ABS business.

In addition, in April 2018, PBOC, China Banking and Insurance Regulatory Commission, CSRC and SAFE jointly announced the Guiding Opinions on Regulating Asset Management Business of Financial Institutions (关于规范金融机构资产管理业务的指导意见), and following which several detail rules are promulgated (together the “**Guiding Opinions**”). The Guiding Opinions aims to reduce

REGULATION

leverage in the financial markets, enhance regulation on the shadow banking and “channel” businesses and unify the standards across securities firms, commercial banks, trust companies and other asset management institutions. The Guiding Opinions, with a wider scope of the definition of asset management products, 1) strictly prohibits implicit returns guaranteed by rolling issuance, funds-mismatching repayment and other methods; 2) imposes certain restriction on underlying assets and proportion of investment; 3) requires risk isolation and prohibits capital pooling. The transition periods of the Guiding Opinions is extended to the end of 2020.

Mutual Fund Management

According to the PRC Law of Securities Investment Funds (中华人民共和国证券投资基金法) last amended in April 2015 and the Interim Provisions on Mutual Securities Investment Fund Management Business by Asset Management Institutions (资产管理机构开展公募证券投资基金管理业务暂行规定) effective June 2013, mutual funds shall be managed by fund management companies or other licensed asset management institutions such as securities firms specifically approved by CSRC. Securities firms applying for mutual funds management approval shall comply with certain requirements, including asset management experience, sound corporate governance structure, good operating conditions, compliance with laws and regulations, membership of AMAC, the considerable size of AUM, as well as compliance with risk control indicators.

Securities firms shall set a specialised mutual funds department and develop an independent investment decision-making process and other firewall systems. Securities firms shall setup a qualified information safety system and establish a solid management system to ensure arm’s length transactions and prevent unfair treatment between different assets or insider dealing.

Private Investment Fund Management

According to the PRC Law of Securities Investment Funds, the Provisional Measures on the Supervision and Management of Private Investment Funds (私募投资基金监督管理暂行办法) effective August 2014, AMAC is authorised to self-regulate the private investment fund industry in accordance with the CSRC’s rules. Although it is not subject to administrative approval to establish private investment funds or the managers, all types of private investment fund managers shall register and all types of private investment funds shall file with AMAC according to the Interim Measures on Registration of Private Investment Fund Manager and Filing of Fund (私募投资基金管理人登记和基金备案办法 (试行)) effective February 2014. Meanwhile, the measures together with other specific rules also impose regulations on investors’ qualification, funds raising and distribution, investment operation and other aspects of private investment fund management.

Qualified Domestic Institutional Investors (QDII)

Under the Trial Measures for the Administration of Offshore Securities Investment by Qualified Domestic Institutional Investors (合格境内机构投资者境外证券投资管理试行办法) effective July 2007, Securities institutions, including domestic fund management firms and securities firms, approved by the CSRC can raise funds within the PRC to invest in offshore securities markets. Securities firms with QDII qualification may raise funds by structuring targeted, collective or specialised asset management products or by other means. The asset under QDII management shall be held in custody by a domestic commercial bank and the QDII may appoint a foreign securities institution for trading service. Besides, according to the Provisions on the Foreign Exchange

REGULATION

Administration on Offshore Securities Investment of Qualified Domestic Institutional Investors (合格境内机构投资者境外证券投资外汇管理规定) effective August 2013, the SAFE imposes a quota management on each QDII, who can exchange in the domestic custody bank basing on the SAFE grant.

Qualified Foreign Institutional Investors (QFII)

Under the Administrative Measures for the Domestic Securities Investment by Qualified Foreign Institutional Investors (合格境外机构投资者境内证券投资管理暂行办法) effective September 2006, Provisions on Foreign Exchange Control on Domestic Securities Investments by Qualified Foreign Institutional Investors (合格境外机构投资者境内证券投资外汇管理规定) last amended in June 2018 and the detail rules promulgated by the stock exchanges, foreign funds management institutions, insurance companies, securities firms and other asset management institutions may invest in domestic securities market with the approval by the CSRC and subject to an investment quota granted by SAFE. Qualified investors shall appoint domestic commercial banks for custody and appoint domestic securities firms to execute domestic trading. Investments in domestic shares by qualified investors shall comply with the restriction on shareholding ratio imposed by the CSRC.

RMB Qualified Foreign Institutional Investors (RQFII)

Under the Pilot Measures on Domestic Securities Investments by RMB Qualified Foreign Institutional Investors (人民币合格境外机构投资者境内证券投资试点办法) effective March 2013 and the detail rules promulgated by the stock exchanges, foreign investors which approved by the CSRC and granted investment quota by the SAFE can engage in domestic securities investment with RMB funds raised outside the PRC. The RQFII shall appoint a qualified domestic commercial bank for custody, and appoint a PRC securities firm to execute the securities trading. The RQFII may appoint a domestic asset management institution for domestic securities investment management.

Mainland and Hong Kong Securities Connection

Securities firms are allowed to enter into pilot mutual market access scheme between Mainland and Hong Kong. “Stock Connect” is under the joint regulation by the CSRC and the SFC with certain provisions including the Interconnection Mechanism for Transactions in the Mainland and Hong Kong Stock Markets (内地与香港股票市场交易互联互通机制若干规定) promulgated by the CSRC in September 2016, the Shanghai Stock Exchange Measures for the Shanghai-Hong Kong Stock Connect Business (上海证券交易所沪港通业务实施办法) last amended in September 2018, and the Shenzhen Stock Exchange Measures for the Shenzhen-Hong Kong Stock Connect Business (深圳证券交易所深港通业务实施办法) last amended on September. “Bond Connect” is governed by PBOC and SFC with recently launched Interim Measures on the Interconnection and Cooperation between Mainland and Hong Kong Bond Market (内地与香港债券市场互联互通合作管理暂行办法) effective June 2017.

Regulation on Subsidiaries of Securities firms

Specialised Securities Subsidiary

Under the Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities firms (证券公司设立子公司试行规定) amended in October 2012, subject to the approval of the CSRC, securities firms may establish wholly-owned specialised securities subsidiaries and may also invest jointly in the establishment of such subsidiaries with other investors who meet the requirements for

REGULATION

shareholders of securities firms. Specialised securities subsidiaries can conduct one or several types of securities business as approved by CSRC, and it is prohibited to engage in same type of business or otherwise in conflicts of interest between the securities firms and such subsidiaries. A subsidiary shall not directly or indirectly hold equity interest or shares of its controlling shareholder, or of other subsidiaries under the common control of the same securities firm.

Private Investment Fund Management Subsidiary

According to the SAC Management Rules for the Private Investment Fund Management Subsidiaries under Securities Firms (证券公司私募投资基金子公司管理规范) effective December 2016, if a private investment fund management subsidiary of a securities firm establishes a special purpose vehicle such as funds management body based on considerations of taxation, policies or supervisions or according to requests from its business partners, it should hold no less than 35% of the equity interests or capital contribution and shall retain control of that special purpose vehicle. If a private investment funds subsidiary and its funds management body invest their own funds in private investment funds set up by that body, the amount invested in a single fund shall not exceed 20% of total amounts of that fund.

Alternative Investment Subsidiary

According to the SAC Management Rules for the Alternative Investment Subsidiaries under Securities Firms (证券公司另类投资子公司管理规范) effective December 2016, an alternative investment subsidiary of a securities firm should: 1) establish an investment management regime, set up a designated investment decision-making body and specific investment decision making authorities and procedures; 2) have a sound organisational structure and clearly defined responsibilities and functions of each business department; and 3) improve its business procedures covering investment feasibility study, project onboarding, due diligence and post-investment management.

Futures Subsidiary

Futures companies shall comply with all applicable requirements related to corporate governance, risk control and business conduct set forth in the Measures on Supervision of Futures Companies (期货公司监督管理办法) last amended in December 2017, the Administrative Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (期货公司董事、监事和高级管理人员任职资格管理办法) effective from July 2007, the Administrative Measures on Risk Regulatory Indicators of Futures Companies (期货公司风险监管指标管理办法) effective from October 2017 and the Regulations on the Administration of Futures Trading (期货交易管理条例) last amended in March 2017. Moreover, the CSRC implements differentiated regulatory treatment based on the Regulations on Classification and Supervision of Futures Companies (期货公司分类监管规定) amended in February 2019 and effective from the same date.

Overseas Subsidiary

Pursuant to the Administrative Measures on the Establishment, Acquisition or Equity Investment in Overseas Institutions by the Securities Firms and the Securities Investment Fund Management Companies (证券公司和证券投资基金管理公司境外设立、收购、参股经营机构管理办法) effective September 2018, securities firms meeting certain financial threshold and other requirements are allowed to, subject to approval by the CSRC, set up or acquire overseas subsidiaries or invest in overseas securities firms and

REGULATION

fund management firms. Unless otherwise approved by the CSRC, overseas subsidiaries of a securities firm shall be wholly owned by the securities firm, and may not engage in non-financial businesses or lending and other similar businesses, or engage in, directly or indirectly, business within the PRC other than providing back office support or auxiliary functions as approved by the CSRC. A securities firm shall ensure its control over its overseas subsidiaries through the articles of association and the board of directors of the subsidiaries. The overseas subsidiaries of a securities firm may further establish their own subsidiaries, which subsidiaries shall not have further subsidiaries unless necessary.

Other Regulations

Foreign Exchange Control

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

According to the Regulations on Foreign Exchange Administration (外汇管理条例) last amended in August 2008 (the “FX Regulation”), international payments and transfers are classified into current account items and capital account items. International payments and transfers under current accounts are not subject to restrictions in China, while those under capital accounts are subject to approval from the SAFE.

Pursuant to the PBOC Rules on Settlement, Sales and Payment of Foreign Exchange (结汇、售汇及付汇管理规定) effective July 1996, foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which are required to pay dividends to shareholders in foreign exchange, may settle such foreign exchange payment, after submitting the relevant general meeting resolutions or board resolutions approving the distribution, using foreign currencies in their foreign exchange account or by converting Renminbi into foreign currencies with designated banks. Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval by SAFE or its relevant branch.

The Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (国家外汇管理局关于境外上市外汇管理有关问题的通知) effective December 2014, sets out provisions for, *inter alia*, the registration, account opening and use, cross-border payments and capital exchange involved in the overseas listing of domestic companies.

According to the State Council’s Decision on the Cancellation and Adjustment of a Series of Items Requiring Administrative Approval (国务院关于取消和调整一批行政审批项目等事项的决定) effective February 2015, approval by SAFE or its branches is no longer required for the remittance and exchange settlement of proceeds raised from the offering of shares overseas by overseas-listed domestic companies.

Information Disclosure

The CSRC Notice on the Relevant Issues Regarding the Information Disclosure of Securities firms (中国证券监督管理委员会关于证券公司信息公示有关事项的通知) effective July 2006 requires a securities firm to disclose information such as general information, business outlets, business qualifications, products and senior management through channels including its website and the website of the SAC.

REGULATION

The CSRC Rules on the Content and Format of Annual Reports of Securities firms (证券公司年度报告内容与格式准则) effective January 2014, require a securities firm to prepare its annual report in the required form and submit the annual report to CSRC within four months after the end of each financial year. In addition, a securities firm that has publicly offered its securities shall also prepare and disclose its annual reports in accordance with the relevant information disclosure requirements for companies with public securities offerings. A securities firm that has not publicly offered securities shall prepare and publicly disclose the information as required under these rules as well as the text of its audit report and its audited financial statements.

The Provisions on Strengthening the Supervision and Administration of Listed Securities firms (关于加强上市证券公司监管的规定), last amended in June 2010 with immediate effect, provides that regular reports and *ad hoc* reports of publicly listed securities firms shall be timely disclosed in accordance with the requirements within the prescribed period of time. A listed securities firm shall also establish a sound information management system in accordance with the general conditions of the PRC securities industry, its specific circumstances and the general information disclosure requirements for listed companies such as the Administrative Measures for the Disclosure of Information of Listed Companies (上市公司信息披露管理办法) effective January 2007.

Anti-money Laundering

Securities firms shall comply with the requirements related to anti-money laundering stipulated in the PRC Anti-money Laundering Law (中华人民共和国反洗钱法) effective January 2007, the Provisions on Anti-money Laundering of Financial Institutions (金融机构反洗钱规定) effective January 2007, the Administrative Measures on Reporting of Large Amount Transactions and Suspicious Transactions of Financial Institutions (金融机构大额交易和可疑交易报告管理办法) last amended in July 2018 with immediate effect, Notice of the People's Bank of China on the Requirements for the Implementation of the Administrative Measures for the Financial Institutions' Reporting of Large-Value Transactions and Suspicious Transactions (中国人民银行关于《金融机构大额交易和可疑交易报告 管理办法》有关执行要求的通知) published in April 2017, the Measures on Administration of Identification of Clients and Preservation of Client Identity Information and Trading Records of Financial Institutions (金融机构客户身份识别和客户身份资料及交易记录保存管理办法) effective August 2007, the Guidelines for Risk Assessment of Money Laundering and Financing of Terrorism and for Client Classification Management in Financial Institutions (金融机构洗钱和恐怖融资风险评估及客户分类管理指引) effective January 2013, the PBOC's Notice on Reporting of Large-amount Transactions by Non-bank Financial Institutions (中国人民银行关于非银行支付机构开展大额交易报告工作有关要求的通知) effective July, 2018, and the Guideline for Corporate Financial Institutions on the Management of Risks Relating to Money Laundering and Terrorist Financing (法人金融机构洗钱和恐怖融资风险管理指引) effective January 2019.

The Measures on the Anti-money Laundering by Securities and Futures Industry (证券期货业反洗钱工作实施办法) effective October 2010, further stipulate the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of institutions engaging in the fund distribution business. Securities and futures entities shall establish and enhance internal control systems for anti-money laundering. In addition, securities firms shall comply with the requirements of the Anti-Money Laundering Guidelines for Securities firms (证券公司反洗钱工作指引) effective April 2014, and implement anti-money laundering measures with due consideration given to respective business features and practical conditions.

REGULATION

China Common Reporting Standard (CRS)

The Administrative Measures for the Due Diligence of Tax-related Information of Financial Accounts Owned by Non-residents (非居民金融帐户涉税信息尽职调查管理办法) effective July 2017 requires financial institutions including securities firms to take due diligence procedures to identify non-resident account and to report certain information on the account to the SAT.

Anti-terrorism

Under the Administrative Measures on Freezing of Assets Involving Terrorist Activities (涉及恐怖活动资产冻结管理办法) effective January 2014, financial institutions and special non-financial institutions established in the PRC shall freeze the related assets in accordance with the list of terrorist organisations and list of persons involving in terrorism as well as the decisions to freeze assets issued by the Ministry of Public Security.

The International Convention for the Suppression of the Financing of Terrorism (制止向恐怖主义提供资助的国际公约) was adopted by resolution 54/109 of December 1999 at the Fifty-fourth session of the General Assembly of the United Nations. The convention appeals for enhancement of international cooperation between countries to formulate and adopt effective measures to prevent financing the terrorism as well as suppressing terrorism through prosecuting and punishing terrorist acts. The PRC Government ratified this convention in April 2006 with reservations and the convention came into force in the PRC in May 2006.

Anti-corruption

The PRC Anti-Unfair Competition Law (中华人民共和国反不正当竞争法) last amended on April 2019, prohibits business operators from using properties or other means for bribing in order to sell or purchase commodities. Serious offenders shall be subject to criminal liabilities under the law. The Interim Provisions on the Prohibition of Commercial Bribery Behaviour issued by the State Administration for Industry and Commerce (国家工商行政管理局关于禁止商业贿赂行为的暂行规定) effective November 1996 further stipulated the constitution and legal liabilities of commercial bribery.

The United Nations Convention against Corruption (联合国反腐败公约) was adopted by the General Assembly of the United Nations in October 2003. The convention aims to promote and enhance various measures for preventing and combating corruption in a more effective and powerful way, and to promote, facilitate and support international cooperation and technical assistance in preventing and combating corruption, including asset recovery, encouraging integrity, accountability and proper management of public affairs and properties. The PRC Government ratified this convention in October 2005 with reservations and the convention came into force in the PRC in February 2006.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER FINANCIAL DATA

The following selected consolidated financial statement data, segment financial data and other financial data relating to the Group as at and for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019 have been extracted from, and should be read in conjunction with, the Audited Consolidated Financial Statements and Unaudited Condensed Consolidated Financial Statements, which are included elsewhere in this Prospectus. Certain operating data relating to the Group are also set forth below.

The selected consolidated financial statements should be read in conjunction with “Operating and Financial Review”.

Selected Statement of Financial Position Data

	As at 31 December			As at 31 March
	2016	2017	2018	2019
				(unaudited, reviewed)
	(RMB in millions)			
ASSETS				
<i>Non-current assets</i>				
Property and equipment	3,567.4	3,737.5	3,548.2	4,280.2
Investment properties	1,130.3	844.7	586.3	580.5
Goodwill	2,091.3	1,971.7	2,099.4	2,057.4
Other intangible assets	5,509.0	5,137.7	5,462.0	5,328.0
Interest in associates	3,075.5	8,895.9	12,527.8	13,464.3
Interest in joint ventures	301.8	—	649.8	651.8
Debt investment at amortised cost	—	—	13,854.9	14,199.1
Financial assets at fair value through other comprehensive income	—	—	10,098.4	10,917.1
Held-to-maturity investments	5.0	—	—	—
Available-for-sale financial assets	31,218.1	29,766.9	—	—
Financial assets held under resale agreements	8,930.4	8,424.3	2,812.2	458.7
Financial assets at fair value through profit or loss	1,294.4	1,796.7	5,155.2	5,148.1
Refundable deposits	8,158.6	7,302.3	7,836.5	8,574.1
Deferred tax assets	556.1	472.6	225.1	189.0
Other non-current assets	79.1	81.0	259.8	248.2
Total non-current assets	65,917.0	68,431.3	65,115.6	66,096.5
<i>Current assets</i>				
Accounts receivable	991.4	1,980.3	3,090.2	5,197.1
Other receivables and prepayments	5,070.5	6,259.6	1,555.1	1,158.3
Margin accounts receivable	56,605.1	59,991.5	46,188.9	57,933.5
Debt investment at amortised cost	—	—	2,419.3	2,554.4
Available-for-sale financial assets	12,518.5	14,816.2	—	—
Financial assets held under resale agreements	37,400.8	53,381.0	40,744.4	42,663.3
Financial assets at fair value through profit or loss	81,812.8	82,753.8	117,089.2	145,012.5
Financial assets at fair value through other comprehensive income	—	—	358.3	471.4
Derivative financial assets	106.6	391.7	1,933.9	948.1
Clearing settlement funds	1,228.8	1,147.5	3,023.4	2,090.0
Cash held on behalf of brokerage clients	94,568.9	65,303.5	58,947.0	86,062.1
Cash and bank balances	45,230.0	27,026.1	28,200.6	35,255.1
Total current assets	335,533.4	313,051.2	303,550.3	379,345.8
Total assets	401,450.4	381,482.5	368,665.9	445,442.3

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER
FINANCIAL DATA**

	As at 31 December			As at 31 March
	2016	2017	2018	2019 (unaudited, reviewed)
(RMB in millions)				
EQUITY AND LIABILITIES				
<i>Non-current liabilities</i>				
Long-term bonds	49,947.8	55,600.8	38,046.1	42,318.3
Long-term bank loans	—	—	1,682.9	1,645.4
Placements from other financial institutions	—	—	—	—
Non-current employee benefits payable	4,988.4	6,078.6	5,046.0	5,081.6
Deferred tax liabilities	2,562.1	1,931.5	1,810.2	2,032.3
Financial assets sold under repurchase agreements	—	1,000.0	—	—
Financial liabilities at fair value through profit or loss	25,163.7	2,345.7	2,325.4	2,444.6
Other payables and accruals	—	—	—	436.2
Total non-current liabilities	82,662.0	66,956.6	48,910.6	53,958.4
<i>Current liabilities</i>				
Short-term bank loans	460.3	—	3,015.8	1,475.2
Short-term debt instruments issued	1,621.0	26,656.0	21,124.0	25,587.4
Placements from other financial institutions	6,650.0	7,030.0	5,813.5	3,179.0
Accounts payable to brokerage clients	92,728.8	67,335.5	59,492.2	90,133.8
Employee benefits payable	2,517.1	2,668.8	2,869.0	2,657.9
Other payables and accruals	79,671.7	62,615.2	53,793.1	75,186.0
Contract liabilities	—	—	7.5	7.1
Current tax liabilities	495.6	433.5	284.4	286.3
Financial assets sold under repurchase agreements	19,463.4	23,921.5	40,095.1	56,375.9
Financial liabilities at fair value through profit or loss	2,756.3	12,035.7	2,874.6	1,974.9
Derivative financial liabilities	864.0	1,642.3	776.1	1,854.3
Long-term bank loans due within one year	—	—	15.8	16.9
Long-term bonds due within one year	25,900.0	21,597.5	24,844.6	24,819.9
Total current liabilities	233,128.2	225,936.0	215,005.7	283,554.6
<i>Equity</i>				
Share capital	7,162.8	7,162.8	8,251.5	8,251.5
Retained profits	16,194.9	18,977.2	19,416.1	21,839.7
Reserves	60,999.8	61,195.9	75,726.0	76,455.7
Total equity attributable to shareholders of the Company	84,357.5	87,335.9	103,393.6	106,546.9
Non-controlling interests	1,302.7	1,254.0	1,356.0	1,382.4
Total Equity	85,660.2	88,589.9	104,749.6	107,929.3
Total equity and liabilities	401,450.4	381,482.5	368,665.9	445,442.3

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER FINANCIAL DATA

Selected Statement of Comprehensive Income Data

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
(RMB in millions)					
Revenue					
Fee and commission income	11,409.9	12,926.3	10,819.9	2,671.5	3,047.3
Interest income	8,878.0	9,348.9	9,482.4	2,467.1	1,879.3
Net investment gains	3,976.1	7,302.3	3,374.6	953.4	2,209.2
Total revenue	24,264.0	29,577.5	23,676.9	6,092.0	7,135.8
Other income and gains	367.6	1,745.9	829.8	190.0	213.2
Total revenue and other income	24,631.6	31,323.4	24,506.7	6,282.0	7,349.0
Fee and commission expenses	(2,561.7)	(4,244.2)	(2,757.7)	(680.9)	(905.6)
Interest expenses	(5,393.5)	(5,749.1)	(6,467.0)	(1,733.1)	(1,376.1)
Staff costs	(5,648.4)	(7,030.2)	(5,372.3)	(1,326.8)	(1,636.7)
Depreciation and amortisation expenses	(408.5)	(566.3)	(625.9)	(145.3)	(268.6)
Tax and surcharges	(450.6)	(152.4)	(139.7)	(33.4)	(39.6)
Other operating expenses	(2,066.2)	(2,277.5)	(2,792.0)	(544.8)	(650.6)
Reversal of/(provision for) impairment losses	36.7	(259.0)	N/A	N/A	N/A
Net (provision for)/reversal of impairment loss on financial assets	N/A	N/A	(862.7)	48.0	(21.8)
Net (provision for)/reversal of impairment loss on other assets	N/A	N/A	N/A	(0.7)	2.5
Total expenses	(16,492.2)	(20,278.7)	(19,017.3)	(4,417.0)	(4,896.5)
Operating profit	8,139.4	11,044.7	5,489.4	1,865.0	2,452.5
Share of profit of associates and joint ventures	454.0	540.0	959.3	600.9	1,025.1
Profit before income tax	8,593.4	11,584.7	6,448.7	2,465.9	3,477.6
Income tax expense	(2,073.9)	(2,176.8)	(1,287.8)	(494.6)	(839.4)
Profit for the year/period	6,519.5	9,407.9	5,160.9	1,971.3	2,638.2
Attributable to:					
Shareholders of the Company	6,270.6	9,276.5	5,032.7	1,953.7	2,613.0
Non-controlling interests	248.9	131.4	128.2	17.6	25.2
	6,519.5	9,407.9	5,160.9	1,971.3	2,638.2

Selected Cash Flow Data

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
(RMB in millions)					
Net cash generated from/(used in) operating activities	22,019.9	(6,726.9)	28,457.8	1,645.0	7,646.3
Net cash used in investing activities	(4,462.7)	(12,268.0)	(10,488.2)	(751.0)	(594.7)
Net cash (used in)/generated from financing activities	(5,009.7)	19,089.8	(8,708.6)	(2,440.9)	6,464.8
Net increase/(decrease) in cash and cash equivalents	12,547.5	94.9	9,261.0	(1,546.9)	13,516.4

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER FINANCIAL DATA

Segmental Data

The following table sets forth the Group's segment revenue and other income (including inter-segment revenue), as well as the segment margin for the periods indicated:

	Year ended 31 December									Three months ended 31 March					
	2016			2017			2018			2018			2019		
										unaudited			unaudited, reviewed		
	(RMB in millions)	% of total	Segment margin ⁽²⁾ (%)	(RMB in millions)	% of total	Segment margin ⁽²⁾ (%)	(RMB in millions)	% of total	Segment margin ⁽²⁾ (%)	(RMB in millions)	% of total	Segment margin ⁽²⁾ (%)	(RMB in millions)	% of total	Segment margin ⁽²⁾ (%)
Wealth management	15,086.8	61.1	37.9	14,099.0	42.1	35.0	12,991.1	48.0	29.7	3,595.8	46.2	43.4	3,420.6	41.9	38.4
Institutional services	5,062.7	20.5	36.0	5,425.0	16.2	33.9	3,109.7	11.5	(19.5)	843.3	10.9	0.5	1,848.0	22.7	65.2
Investment management	3,326.1	13.5	64.2	3,435.4	10.2	66.7	3,398.8	12.6	59.3	835.3	10.7	105.8	996.5	12.2	159.0
International business	358.3	1.5	(98.9)	3,767.1	11.2	4.4	3,115.5	11.5	8.8	725.6	9.3	19.0	824.5	10.1	7.1
Others ⁽¹⁾	838.6	3.4	(86.5)	6,794.5	20.3	64.0	4,443.7	16.4	76.2	1,782.5	22.9	77.0	1,071.6	13.1	10.5
Total segment revenue and other income . . .	24,672.5	100.0	34.8	33,521.0	100.0	40.5	27,058.8	100	33.0	7,782.5	100.0	50.9	8,161.2	100.0	52.4

(1) The others segment includes other operations of the head office, mainly including interest income, share of profit of associates and joint ventures (including investment management business associates), interest expenses of working capitals, and costs and expenses of middle offices and back offices.

(2) Segment margin = (segment profit/(loss) before income tax)/segment revenue and other income

Other Financial Data

The following table sets forth the key measurements of the Group's profitability:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions, except %)				
Operating profit ⁽¹⁾	8,139.4	11,044.7	5,489.4	1,865.0	2,452.5
Operating margin ⁽²⁾	33.0%	35.3%	22.4%	29.7%	33.4%
Adjusted operating margin ⁽³⁾⁽⁶⁾	48.8%	51.8%	35.9%	48.2%	48.4%
Profit for the year/period	6,519.5	9,407.9	5,160.9	1,971.3	2,638.2
Net margin ⁽⁴⁾	26.5%	30.0%	21.1%	31.4%	35.9%
Adjusted net margin ⁽⁵⁾⁽⁶⁾	39.1%	44.1%	33.8%	51.0%	52.1%
Return on equity⁽⁷⁾	7.6%	10.8%	5.3%	2.2%	2.5%
Return on assets⁽⁸⁾	1.5%	2.4%	1.4%	0.5%	0.6%

(1) Operating profit = total revenue and other income – total expenses

(2) Operating margin = operating profit/total revenue and other income

(3) Adjusted operating margin = (operating profit)/(total revenue and other income – fee and commission expenses and interest expenses)

(4) Net margin = (profit for the year/period)/total revenue and other income

(5) Adjusted net margin = (profit for the year/period)/(total revenue and other income – fee and commission expenses and interest expenses)

(6) Adjusted operating margin and adjusted net margin are not standard measures under IFRS but are presented here because PRC securities firms present their operating revenues after deduction of fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. The Company believes that the adjusted operating margin and adjusted net margin provide appropriate indicators of the results of operations that are more comparable to other PRC securities firms due to different presentation requirements under PRC GAAP. Prospective investors should be aware that the adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.

(7) Profit for the year/period attributable to the shareholders of the Company divided by the simple average balance of total equity attributable to the shareholders of the Company as at the beginning and end of a year/period

(8) Profit for the year/period divided by the simple average balance of total assets as at the beginning and end of a year/period

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the Group's operating and financial results is based on, and should be read in conjunction with, the Financial Statements. Investors should read the following discussion together with the whole of this Prospectus, including "Risk Factors", "Selected Consolidated Financial Information and Other Financial Data" and the Financial Statements (including the related notes), and should not rely solely on the information set out in this section.

The following discussion includes certain forward-looking statements that, although based on assumptions that the Company considers to be reasonable, are subject to risks and uncertainties that could cause actual events or conditions to differ materially from those expressed or implied in this Prospectus. Among the important factors that could cause the Group's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements are those factors that are discussed in "Forward-Looking Statements" and "Risk Factors" in this Prospectus. All statements other than statements of historical fact, such as statements regarding the Group's future financial position and risks and uncertainties related to the Group's business, plans and objectives for future operations, are forward-looking statements.

Overview

The Group primarily provides the following financial services to individual, institutional and corporate clients:

- *Wealth management business*, which offers convenient online wealth management solutions and customised advisory solutions, including securities and derivatives brokerage, financial products sales and capital-based intermediary services;
- *Institutional services business*, which provides comprehensive financial services to various types of corporate and institutional clients, including investment banking, institutional investor services and investment and trading;
- *Investment management business*, which provides full-service asset management solutions, including securities firm asset management, private equity fund management and mutual fund management; and
- *International business*, which provides full-service financial services in Hong Kong through Huatai Financial Holdings, and wealth management and technology solutions in the US through AssetMark.

In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, the Group's total revenue and other income was RMB24,631.6 million, RMB31,323.4 million, RMB24,506.7 million, RMB6,282.0 million and RMB7,349.0 million, respectively; its profit for the year or period was RMB6,519.5 million, RMB9,407.9 million, RMB5,160.9 million, RMB1,971.3 million and RMB2,638.2 million, respectively; and its net margin was 26.5%, 30.0%, 21.1%, 31.4% and 35.9%, respectively.

Basis of Presentation

The financial statements have been prepared in accordance with IFRSs. The Group prepares the financial statements on the historical cost basis except for certain financial instruments that are measured at their fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The financial statements are presented in Renminbi, which is the functional currency.

OPERATING AND FINANCIAL REVIEW

The financial information incorporates the financial statements of entities that the Group controls (the subsidiaries). Control is achieved when the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the other members. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are presented separately from the equity therein.

Key Factors Affecting the Group's Results of Operations

The following factors are the principal factors that have affected and, as the Group expects, will continue to affect the Group's business, financial condition, results of operations and prospects.

Economic and market conditions

A substantial majority of the Group's revenue is derived from the securities markets in China. As a result, the Group's business, financial condition and results of operations are directly affected by the inherent risks associated with the securities markets in China, such as market volatility, fluctuations in the trading volume and the debt repayment capacity or perceived creditworthiness of the securities industry. The Group's business is also subject to general economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates.

For example, the A share market in China experienced a trading volume decline in 2018. Shanghai and Shenzhen A share market recorded an accumulative stock trading volume of RMB89.7 trillion in 2018, with an average daily trading volume of RMB368.9 billion, representing a significant decrease of 19.5% as compared to that of 2017. Accordingly, the Group's securities brokerage trading volume and fee and commission income from securities brokerage as well as net investment gains significantly decreased in 2018.

In particular, the Group's business, financial condition and results of operations may be adversely affected by the general economic, geopolitical and market conditions in many ways, including, among other things:

- The Group's wealth management business comprises diverse wealth management services, including, among other things, securities and derivatives brokerage and financial products sales. As a result, the Group's wealth management business heavily depends on trading volumes and equity market performance. Unfavourable economic, geopolitical and market conditions can adversely affect investor sentiment and investment and trading activities, resulting in reduced brokerage fee and commission income.
- The Group's institutional services business mainly includes investment banking, institutional investor services and investment and trading, for various types of enterprises and financial institutions, which has been and may continue to be affected by market conditions. Unfavourable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of M&A and fund raising transactions, which

OPERATING AND FINANCIAL REVIEW

may have a material adverse effect on the revenue and profitability of the Group's investment banking business. In addition, the Group has net long trading positions in various equity and fixed-income securities as part of its investment and trading business. As a substantial portion of these financial instruments is marked to market, declines in fair values could directly impact the Group's profit and capital position, unless the Group has effectively hedged its exposures to such declines. However, it may not be possible or economical for the Group to hedge such exposures entirely. Sudden declines and significant volatility in the asset prices may cause the Group to incur significant losses or record significant unrealised losses.

- The Group's investment management business mainly consists of securities firm asset management, private equity fund management and mutual fund management. Under its investment management business, the Group receives asset management fees based on the value of its clients' portfolios or their assets under investment accounts that it manages. In addition, the Group also earns performance fees on certain asset management schemes. Market volatility and adverse economic conditions may reduce the Group's AUM, and affect the performance of the assets or funds it manages, which could adversely affect its ability to receive management fees or performance fees.
- The Group's international business subjects it to risks inherent in conducting business internationally, such as economic uncertainties and recessions in overseas markets, more stringent regulatory requirements and unpredictability in local political environment, among other things, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Competition

The PRC securities industry is highly competitive, and the Group faces intense competition in most of its business lines. The Group competes principally with other full-service securities firms in China, some of which offer a broader range of services and have greater financial resources or a larger client base. In addition, the Group faces increasing competition from other financial institutions, such as commercial banks, fund management companies, and other financial service providers, such as internet finance providers, discounted online brokers and PRC subsidiaries of foreign financial institutions.

The Group believes that the principal factors affecting competition involve price, products and services, transaction execution, experience and knowledge of the staff and geographic scope. For example, in 2016, 2017 and 2018, the Group's stocks and funds brokerage trading volume commanded the largest market share among the securities firms in China. However, the Group cannot ensure that it will continue to maintain or increase its market share. Increased competition or an adverse change in the competitive position could lead to a reduction of market share and therefore a reduction of revenue and profit. In particular, competition has a direct impact on the pricing of the Group's products and services, particularly in its wealth management business. The Group's brokerage fee and commission income accounted for a substantial portion of its total revenue and was mainly influenced by commission rates and trading volume. In recent years, in line with the intensified price competition in the stocks and funds brokerage business in China and the market trend of decreasing brokerage commission rates, the Group's average stocks and funds brokerage commission rate has also decreased over the past few years. Competition can also raise the costs of hiring and retaining the employees that the Group needs to operate the business effectively.

OPERATING AND FINANCIAL REVIEW

Stabilisation measures in the PRC stock market

In 2015, the A share market experienced significant fluctuations, especially from mid-June to the end of August. As a result, the PRC government announced a series of measures to stabilise the stock market and restore investor confidence. In July and September 2015, the Group contributed to the designated accounts at China Securities Finance for purchasing blue-chip ETFs in China. As at 31 March 2019, the fair value of the investment position of the funds contributed to the designated account at China Securities Finance was RMB10,535.4 million.

These stabilisation measures expose the Group to additional market and other risks, primarily including the following:

- there is no publicly available information regarding how the Company's contributions to the designated accounts at China Securities Finance have been invested and when the Company's contributions will be returned. The Company may incur losses from these contributions due to future disposal or impairment and financial position may fluctuate as a result of revaluation; and
- the Company may be unable to reduce its A Share proprietary trading positions or effectively hedge its exposures through short selling to mitigate market risks in a highly volatile market.

Business lines and product mix

The Group's products and services in different business lines have different profit margins and future growth prospects, and as a result, any material changes in the product mix, whether due to changes in the growth strategies, market conditions, client demand or other reasons, may affect the Group's financial condition and results of operations.

The Group's historical results of operations were significantly affected by the revenue contribution and profit margin of its wealth management business. As its products and services become more diverse, the Group seeks to optimise the product mix by increasing the revenue contribution from business lines with relatively higher profit margins and significant growth potential. In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, segment revenue (including inter-segment revenue) from the Group's wealth management business accounted for 61.7%, 44.3%, 47.9%, 46.0% and 40.9% of the Group's total revenue (including inter-segment revenue), respectively, while the interest income from the Group's margin financing and securities lending and securities-backed lending services accounted for 23.4%, 19.8%, 24.1%, 23.0% and 13.6% of the Group's total revenue (including inter-segment revenue), respectively, and the segment revenue (including inter-segment revenue) from the Group's investment management business accounted for 13.1%, 8.2%, 12.1%, 9.9% and 12.2% of the total revenue (including inter-segment revenue), respectively.

As the Group also seeks to diversify its revenue sources by broadening product and service offerings, the future results of operations and financial condition could be significantly affected by its ability to design, develop and bring new products, transact business with new clients and counterparties, manage new asset classes and to enter into new markets.

Regulatory environment

The Group's results of operations, financial condition and prospects are subject to regulatory developments in the PRC and economic measures undertaken by the PRC government. In particular,

OPERATING AND FINANCIAL REVIEW

the Group believes that the ability to expand business and broaden the scope of products and service offerings has been and will continue to be materially affected by changes in the policies, laws and regulations governing the PRC securities industry, including the extent to which the Group can engage in certain businesses or adopt certain business models and fee structures.

The regulatory regime of the PRC securities industry has been evolving and the CSRC and other regulatory authorities are committed to reforming the PRC securities industry to improve capital market activities and efficiency and broaden the scope of new products and services that securities firms can offer. For example, the CSRC launched several pilot programmes over the past few years, such as stock index futures, margin financing and securities lending, securities-backed lending, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect to expand the products and services that securities firms can offer. In addition, the PRC government has also taken various measures to improve the capital efficiency and diversify the funding sources of PRC securities firms, including lowering the risk-weighted capital reserve requirements for qualified securities firms, and allowing PRC securities firms to issue subordinated bonds and structured notes. The Group expects these regulatory reforms and governmental actions to continue to affect the PRC securities industry and its business, financial condition and results of operations.

Interest rates

The business and results of operations of the Group are also affected by changes in interest rates in China. The changes in interest rates affect the value of the Group's financial assets. An increase in interest rates could cause a decline in the fair value of fixed-income securities and adversely affect the average investment yield. A rise in interest rates could lower the ability or willingness of corporate clients to raise funds from debt markets, which could lower the revenue generated by the Group's debt underwriting business. An increase in interest rates would increase the amount of interest income from interest-earning assets and the amount of interest expenses the Group needs to pay on interest-bearing liabilities. Interest-earning assets consist primarily of margin loans in the Group's capital-based intermediary services, bank deposits, clearing settlement funds and financial assets held under resale agreements. The Group makes interest payments on deposits held on behalf of customers and various types of bonds and notes. These interest expenses are directly linked to prevailing market interest rates. During periods of rising interest rates, interest expenses and financing costs would generally increase. If the increase in the Group's interest expenses is higher than the increase in the Group's interest income, the Group's business and results of operations may be adversely affected.

OPERATING AND FINANCIAL REVIEW

Principal Components of Consolidated Income Statements

Revenue and other income

The Group's revenue and other income primarily consists of fee and commission income, interest income and net investment gains. The following table summarises the Group's revenue and other income for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
(RMB in millions)					
Revenue					
Fee and commission income	11,409.9	12,926.3	10,819.9	2,671.5	3,047.3
Interest income	8,878.0	9,348.9	9,482.4	2,467.1	1,879.3
Net investment gains	3,976.1	7,302.3	3,374.6	953.4	2,209.2
Total revenue	24,264.0	29,577.5	23,676.9	6,092.0	7,135.8
Other income and gains	367.6	1,745.9	829.8	190.0	213.2
Total revenue and other income	24,631.6	31,323.4	24,506.7	6,282.0	7,349.0

Fee and commission income

The following table summarises the Group's fee and commission income for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
(RMB in millions)					
Income from securities brokerage and advisory business	7,669.1	5,834.5	4,573.6	1,376.3	1,586.4
Income from asset management business	1,168.4	4,210.2	3,418.1	740.3	961.4
Income from underwriting and sponsorship business	1,512.6	1,175.2	1,340.4	309.0	172.4
Income from financial advisory business	659.4	905.0	649.2	109.1	77.9
Income from futures brokerage business	277.2	727.5	770.4	118.4	230.3
Other commission income	123.2	73.9	68.2	18.4	18.9
Total	11,409.9	12,926.3	10,819.9	2,671.5	3,047.3

The Group generates fee and commission income from securities brokerage and advisory by trading stocks, bonds and funds on behalf of customers, sales of financial products and providing wealth management advisory services to brokerage customers. The Group also generates fee and commission income in the futures brokerage business by trading futures on behalf of customers.

The Group generates underwriting and sponsorship fees and financial advisory fees in the investment banking business by providing equity and debt underwriting as well as financial advisory services.

The Group also generates asset management fees, including performance fees, in the investment management business by managing customers' assets and investment portfolios, as well as asset management fees from AssetMark by managing customers' assets on its platform.

OPERATING AND FINANCIAL REVIEW

Interest income

The interest income mainly includes (i) interest income from financial institutions, (ii) interest income from margin financing and securities lending, (iii) interest income from securities-backed lending, (iv) interest income from other financial assets held under resale agreements, (v) interest income from debt instruments at amortised cost and (vi) others.

The following table summarises the Group's interest income for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Interest income from financial institutions	3,130.2	2,820.7	2,397.0	586.1	506.8
Interest income from margin financing and securities lending	4,283.4	4,179.0	3,906.9	1,079.7	817.4
Interest income from securities-backed lending	1,390.2	2,085.7	2,399.1	661.5	264.9
Interest income from other financial assets held under resale agreements	54.5	212.1	325.2	83.7	68.9
Interest income from debt instruments at amortised cost	—	—	448.0	44.0	156.4
Others	19.7	51.4	6.2	12.1	64.9
Total	8,878.0	9,348.9	9,482.4	2,467.1	1,879.3

The Group receives interest income from banks for cash balances held on behalf of brokerage customers as well as its own cash balance. The Group generates interest income primarily in its capital-based intermediary services, including margin financing and securities lending and securities-backed lending. Its interest income from margin financing and securities lending includes interest income from the Company's margin financing and securities lending business and from Huatai Financial Holdings' margin financing services. From 2018, the Group started to recognise interest income from debt instruments at amortised cost which represented its interest income from its held-to-maturity debt investments.

OPERATING AND FINANCIAL REVIEW

Net investment gains

The following table summarises the Group's net investment gains for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Net realised gains from disposal of available-for-sale financial assets	1,459.9	4,219.4	—	—	—
Dividend income and interest income from available-for-sale financial assets	248.1	644.9	—	—	—
Net realised (losses)/gains from disposal of financial instruments at fair value through profit or loss	(1,198.5)	(120.4)	(3,849.8)	(138.4)	1,531.4
Dividend income and interest income from financial instruments at fair value through profit or loss	2,415.0	2,401.9	4,193.9	893.2	400.4
Dividend income and interest income from financial assets at fair value through other comprehensive income	—	—	854.3	—	—
Net realised gains/(losses) from disposal of derivative financial instruments	1,391.1	497.8	378.3	(20.5)	(437.9)
Interest income from held-to-maturity investments	0.2	0.3	—	—	—
Net gains arising from derecognition of debt investment at amortised cost	—	—	—	—	1.0
Unrealised fair value changes of financial instruments at fair value through profit or loss	(1,754.3)	137.3	(755.3)	10.2	1,995.9
Unrealised fair value changes of derivative financial instruments	1,414.6	(478.9)	2,553.2	208.9	(1,281.6)
Total	3,976.1	7,302.3	3,374.6	953.4	2,209.2

The Group adopted IAS 39 Financial Instruments before 1 January 2018 and its net investment gains primarily included (i) gains or losses from disposal of financial instruments at fair value through profit or loss, (ii) gains or losses from disposal of available-for-sale financial assets, (iii) gains or losses from disposal of derivative financial instruments, (iv) dividend income and interest income from financial instruments at fair value through profit or loss, and (v) unrealised fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments.

Financial instruments at fair value through profit or loss refer to stocks, funds, fixed-income securities and wealth management products the Group holds measured at fair value through profit or loss.

The Group's net investment gains from financial instruments at fair value through profit or loss mainly consist of (i) net realised gains or losses from disposal of these financial instruments, (ii) dividend income and interest income from these financial instruments, and (iii) changes in fair value of these financial instruments.

Available-for-sale financial assets refer to the following categories of assets:

- equity and fixed-income securities as well as funds accounted as available-for-sale in the Group's investment and trading business;
- contributions to designated accounts at China Securities Finance;
- equity investments in unlisted companies; and
- investments in third-party financial products for investment and treasury management purposes.

OPERATING AND FINANCIAL REVIEW

The Group's net investment gains from available-for-sale financial assets mainly consist of (i) net realised gains or losses from disposal of these assets and (ii) dividend income and interest income from these financial assets.

Net investment gains from derivative financial instruments, primarily stock index futures, treasury futures, equity return swaps, interest rate swaps and options, consist of (i) net realised gains or losses from disposal of these financial instruments and (ii) changes in fair value of these financial instruments.

Since 1 January 2018, the Group has adopted IFRS 9 Financial Instruments and reclassified financial assets formerly under IAS 39 based on the requirements under IFRS 9, with the major changes below:

- certain of the available-for-sale financial assets, such as fixed-income securities which are held within a business model whose objective is to hold assets to collect contractual cash flows were reclassified as financial assets at amortised cost;
- certain of the available-for-sale financial assets, such as (i) investments in equity and fixed-income securities in the Group's investment and trading business, and (ii) investments in equity and fixed-income securities made by asset management schemes invested with the Group's own funds in the investment management business, were reclassified as financial assets at fair value through profit or loss; and
- certain of the available-for-sale financial assets, such as (i) investments in equity securities not held for trading that the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income, and (ii) fixed income investments which is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, were reclassified as financial assets at fair value through other comprehensive income.

Since 1 January 2018, the Group's net investment gains primarily include investment gains and losses from: (i) financial instruments at fair value through profit or loss; (ii) financial assets at fair value through other comprehensive income; (iii) financial assets at amortised cost; and (iv) derivative financial instruments.

The Group's financial assets at fair value through profit or loss primarily include the following categories of assets:

- fixed-income and equity securities held for trading;
- equity investments in unlisted companies;
- investments in third-party financial products for investment and treasury management purposes; and
- investments in equity securities and fixed-income securities made by asset management schemes participated by the Group with its own funds and invested by its consolidated structured entities.

The Group's net investment gains from financial assets at fair value through profit or loss mainly consist of: (i) net realised gains or losses from disposal of these financial assets; (ii) changes in fair value of these financial assets; and (iii) dividend income and interest income from these financial assets during the holding period.

OPERATING AND FINANCIAL REVIEW

The Group's financial assets at fair value through other comprehensive income primarily include the following categories of assets:

- investments in fixed-income securities from which the Group held for both collecting contractual cash flows and selling and investments in equity securities not held for trading, including its contribution to the designated accounts at China Securities Finance.

The Group's net investment gains from financial assets at fair value through other comprehensive income mainly consist of: (i) dividends and interest income from these financial assets during the holding period; and (ii) net realized gains or losses from disposal of these financial assets (excluding investments in equity securities not held for trading).

The Group's financial assets at amortised cost primarily include the following categories of assets:

- investments in fixed-income securities from which the Group holds to collect contractual cash flows.

The Group's net investment gains from financial assets at amortised cost mainly consist of net realized gains or losses from disposal of these financial assets.

The Group's net investment gains from derivative financial instruments, primarily index futures, OTC options and equity return swaps, consist of: (i) net realized gains from disposal of these financial instruments; and (ii) changes in fair value of these financial instruments.

Other income and gains

The following table summarises the Group's other income and gains for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Government grants	169.3	67.7	182.0	71.8	10.0
Rental income	68.4	80.9	94.7	21.9	13.9
Gains on disposal of property and equipment	11.0	8.4	0.1	0.1	—
Excess of interest in the fair value of investee's identifiable net assets over investment costs of associates ventures acquired	—	752.6	—	—	—
Gains on previously held interest in subsidiaries and joint venture upon loss of control or disposal	—	725.3	4.9	—	—
Income from commodity sales	11.3	2.7	369.2	87.7	163.3
Foreign exchange (losses)/gains	(14.4)	(38.1)	30.5	(33.6)	(1.9)
Others	122.0	146.4	148.4	42.1	27.9
Total	367.6	1,745.9	829.8	190.0	213.2

The Group's other income and gains primarily include rental income, other income not in the principal lines of business and certain non-recurring income, such as government grants. The Group receives rental income primarily from the office buildings in Nanjing. The Group receives government grants which primarily include local government subsidies intended to support the Group's local business presence.

OPERATING AND FINANCIAL REVIEW

In 2017, the Group had a significant amount of non-recurring income from the changes in accounting treatment of the Group's equity investment in Bank of Jiangsu and investments in certain affiliates due to regulatory directives and requirements.

Total expenses

The total expenses primarily include (i) staff costs, (ii) fee and commission expenses, (iii) interest expenses, (iv) depreciation and amortisation expenses, (v) net impairment loss on financial assets, (vi) other operating expenses and (vii) tax and surcharges. The following table summarises the Group's total expenses for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
(RMB in millions)					
Fee and commission expenses	2,561.7	4,244.2	2,757.7	680.9	905.6
Interest expenses	5,393.5	5,749.1	6,467.0	1,733.1	1,376.1
Staff costs	5,648.4	7,030.2	5,372.3	1,326.8	1,636.7
Depreciation and amortisation expenses	408.5	566.3	625.9	145.3	268.6
Tax and surcharges	450.6	152.4	139.7	33.4	39.6
Other operating expenses	2,066.2	2,277.5	2,792.0	544.8	650.6
(Reversal of)/provision for impairment losses	(36.7)	259.0	N/A	N/A	N/A
Net provision for/(reversal of) impairment loss on financial assets	N/A	N/A	862.7	(48.0)	21.8
Net provision for/(reversal of) impairment loss on other assets	N/A	N/A	N/A	0.7	(2.5)
Total expenses	16,492.2	20,278.7	19,017.3	4,417.0	4,896.5

Staff costs

The Group's staff costs primarily include salaries, bonuses and allowances, contribution to pension schemes and other welfare benefits paid to employees, including key management personnel and directors.

Fee and commission expenses

The following table summarises the Group's fee and commission expenses for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
(RMB in millions)					
Expenses for securities brokerage and advisory business	2,335.7	1,838.8	1,399.5	429.5	506.2
Expenses for futures brokerage business	15.9	455.6	514.6	67.5	179.8
Expenses for financial advisory business	21.9	—	0.1	—	—
Expenses for underwriting and sponsorship business	53.1	41.8	40.9	6.3	2.7
Expenses for asset management business	128.1	1,904.3	793.9	174.5	212.4
Other commission expenses	7.0	3.7	8.7	3.1	4.5
Total	2,561.7	4,244.2	2,757.7	680.9	905.6

OPERATING AND FINANCIAL REVIEW

The Group's fee and commission expenses primarily include expenses for the following activities:

- securities brokerage and advisory, primarily securities dealing expenses charged by the stock exchanges and other authorised institutions for using their transaction and settlement systems as well as commissions paid to the securities brokerage agents;
- futures brokerage, primarily expenses paid to futures exchanges relating to the Group's futures brokerage business;
- underwriting and sponsorship, primarily commission expenses paid to other financial institutions for distributing the securities that the Group underwrites, legal fees and consulting fees; and
- asset management, primarily asset-based expenses paid by AssetMark as well as commission expenses paid to commercial banks in China for distributing the Group's asset management products.

Interest expenses

The Group's interest expenses primarily include (i) interest expenses of accounts payable to brokerage clients, (ii) interest expenses on repurchase transactions, (iii) interest expenses on the short-term debt instruments and long-term bonds and (iv) interest expenses on the placements. The following table summarises the Group's interest expenses for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Interest expenses of accounts payable to brokerage clients	436.8	301.3	276.0	69.3	77.0
Interest expenses on financial assets sold under repurchase agreements	974.3	861.8	1,277.3	342.2	335.7
Interest expenses on placements	155.0	302.8	549.5	130.8	78.3
Interest expenses on short-term bank loans	27.6	10.8	48.5	1.6	21.7
Interest expenses on long-term bank loans	15.1	—	12.7	—	26.2
Interest expenses on short-term debt instruments issued . .	78.6	521.3	807.5	218.3	99.0
Interest expenses on long-term bonds	3,294.4	3,407.7	3,251.6	957.4	702.2
Others	411.7	343.4	243.9	13.5	36.0
Total	5,393.5	5,749.1	6,467.0	1,733.1	1,376.1

Depreciation and amortisation expenses

Depreciation and amortisation expenses relate primarily to depreciation of property and equipment and amortisation of long-term deferred expenses and other intangible assets.

Other operating expenses

Other operating expenses include, among others, rental expenses, postal and communication expenses and business development expenses.

OPERATING AND FINANCIAL REVIEW

Provision for/(reversal of) impairment losses/Net provision for/(reversal of) impairment loss on financial assets

Before the adoption of IFRS 9, the carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised. IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (“ECL”) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (which are, the difference between the cash flows due to the entity in accordance with the contract and the cash flows that we expect to receive). ECLs are discounted at the effective interest rate of the financial asset. The maximum period considered when estimating ECLs is the maximum contractual period over which we are exposed to credit risk.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are expected credit losses that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for accounts receivables at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (namely, the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

In assessing whether the credit risk of an asset has significantly increased, the Group considers qualitative and quantitative reasonable and supportable forward-looking information. For example:

- with respect to its margin financing and securities lending as well as stock-backed lending businesses, the Group considers the maintenance margin ratio or collateral coverage ratio, repayment of principal and interests and other factors that indicate significantly increased credit risk; and
- with respect to its debt investments, we consider the changes in the financial status of debtors, performance of contracts, repayment of principal and interests and other factors that indicate significantly increased credit risk.

OPERATING AND FINANCIAL REVIEW

Since 1 January 2018, the Group has made provisions for impairment losses on financial assets in accordance with the requirements under IFRS and its accounting policies. The following table summarizes our provision for impairment losses for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
	(RMB in millions)				
(Reversal of)/ provision for impairment losses against cash and bank balances	—	—	(2.1)	4.5	(0.9)
(Reversal of)/ provision for impairment losses against margin accounts receivable	(0.6)	81.1	(21.9)	(54.1)	(18.6)
(Reversal of)/ provision for impairment losses against other receivables and prepayments	(54.5)	75.4	397.9	20.0	(48.3)
Provision for impairment losses against debt investment at amortised cost	—	—	5.9	0.4	1.7
Provision for impairment losses against available -for-sale financial assets	—	57.3	—	—	—
Provision for impairment losses against financial assets at fair value through other comprehensive income	—	—	0.5	—	0.2
Provision for/(reversal of) impairment losses against financial assets held under resale agreements	15.6	34.6	473.9	(19.1)	78.5
Provision for impairment losses against accounts receivable	2.8	10.6	8.5	0.3	9.2
Total	(36.7)	259.0	862.7	(48.0)	21.8

Income tax expense

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. All the PRC subsidiaries are subject to an EIT rate of 25.0% in accordance with the EIT law that became effective on 1 January 2008. Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profits. Pursuant to the Tax Cuts and Jobs Act of 2017 in the United States, since 1 January 2018, the federal corporate income tax rate applicable to AssetMark and its subsidiaries in the United States has been reduced from a maximum marginal rate of 35% to a flat rate of 21%. The effective income tax rate was 24.1%, 18.8%, 20.0%, 20.1% and 24.1% for 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, respectively.

OPERATING AND FINANCIAL REVIEW

Results of Operations

The following table summarises the results of operations for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Revenue					
Fee and commission income	11,409.9	12,926.3	10,819.9	2,671.5	3,047.3
Interest income	8,878.0	9,348.9	9,482.4	2,467.1	1,879.3
Net investment gains	3,976.1	7,302.3	3,374.6	953.4	2,209.2
Total revenue	24,264.0	29,577.5	23,676.9	6,092.0	7,135.8
Other income and gains	367.6	1,745.9	829.8	190.0	213.2
Total revenue and other income	24,631.6	31,323.4	24,506.7	6,282.0	7,349.0
Fee and commission expenses	(2,561.7)	(4,244.2)	(2,757.7)	(680.9)	(905.6)
Interest expenses	(5,393.5)	(5,749.1)	(6,467.0)	(1,733.1)	(1,376.1)
Staff costs	(5,648.4)	(7,030.2)	(5,372.3)	(1,326.8)	(1,636.7)
Depreciation and amortisation expenses	(408.5)	(566.3)	(625.9)	(145.3)	(268.6)
Tax and surcharges	(450.6)	(152.4)	(139.7)	(33.4)	(39.6)
Other operating expenses	(2,066.2)	(2,277.5)	(2,792.0)	(544.8)	(650.6)
Reversal of/(provision for) impairment losses	36.7	(259.0)	N/A	N/A	N/A
Net (provision for)/reversal of impairment loss on financial assets	N/A	N/A	(862.7)	48.0	(21.8)
Net (provision for)/reversal of impairment loss on other assets	N/A	N/A	N/A	(0.7)	2.5
Total expenses	(16,492.2)	(20,278.7)	(19,017.3)	(4,417.0)	(4,896.5)
Operating profit	8,139.4	11,044.7	5,489.4	1,865.0	2,452.5
Share of profit of associates and joint ventures	454.0	540.0	959.3	600.9	1,025.1
Profit before income tax	8,593.4	11,584.7	6,448.7	2,465.9	3,477.6
Income tax expense	(2,073.9)	(2,176.8)	(1,287.8)	(494.6)	(839.4)
Profit for the year/period	6,519.5	9,407.9	5,160.9	1,971.3	2,638.2

The following discussion compares the major components of the Group's operating results in 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019.

Total Revenue and other income

Comparisons between the three months ended 31 March 2018 and 2019

The Group's total revenue and other income increased by 17.0% from RMB6,282.0 million in the three months ended 31 March 2018 to RMB7,349.0 million in the same period in 2019. This was due primarily to increases in the Group's fee and commission income and net investment gains, reflecting the improved A share stock market conditions and the resulting increase in market trading volume in the first quarter of 2019.

Comparisons between 2017 and 2018

The Group's total revenue and other income decreased by 21.8% from RMB31,323.4 million in 2017 to RMB24,506.7 million in 2018. This was due primarily to decreases in the Group's fee and commission income and net investment gains, reflecting the prolonged downturn of the A share stock market and significantly decreased market trading volume in 2018.

OPERATING AND FINANCIAL REVIEW

Comparisons between 2017 and 2016

The Group's total revenue and other income increased by 27.2% to RMB31,323.4 million in 2017 compared to RMB24,631.6 million in 2016. This was due primarily to increases in the Group's net investment gains, fee and commission income and interest income, reflecting the consolidation of AssetMark and the changes in accounting treatment of the Group's equity investment in Bank of Jiangsu in 2017.

Fee and commission income

Comparisons between the three months ended 31 March 2018 and 2019

The Group's fee and commission income increased by 14.1% from RMB2,671.5 million in the three months ended 31 March 2018 to RMB3,047.3 million in the same period in 2019. This was principally a result of increases in the fee and commission income on asset management, securities brokerage and advisory and futures brokerage businesses, partially offset by decreases in fee and commission income from underwriting and sponsorship and financial advisory businesses.

The Group's fee and commission income from asset management business increased by 29.9% from RMB740.3 million in the three months ended 31 March 2018 to RMB961.4 million in the same period in 2019, due primarily to an increase in the Group's asset management fees as a result of increase of the Group's AUM.

The Group's fee and commission income from securities brokerage and advisory business increased by 15.3% from RMB1,376.3 million in the three months ended 31 March 2018 to RMB1,586.4 million in the same period in 2019, due primarily to an increase in the Group's brokerage trading volume as a result of the improved A share stock market conditions.

The Group's fee and commission income from futures brokerage business increased by 94.5% from RMB118.4 million in the three months ended 31 March 2018 to RMB230.3 million in the same period in 2019, due primarily to an increase in the Group's futures trading volume.

The Group's fee and commission income from underwriting and sponsorship business decreased by 44.2% from RMB309.0 million in the three months ended 31 March 2018 to RMB172.4 million in the same period in 2019, due primarily to decreases in the number and transaction value of equity offerings the Group underwrote.

The Group's fee and commission income from financial advisory business decreased by 28.6% from RMB109.1 million in the three months ended 31 March 2018 to RMB77.9 million in the same period in 2019, due primarily to a decrease in number of M&A transactions advised by the Group.

Comparisons between 2017 and 2018

The Group's fee and commission income decreased by 16.3% from RMB12,926.3 million in 2017 to RMB10,819.9 million in 2018. This was principally a result of decreases in the fee and commission income on securities brokerage and advisory, asset management and financial advisory businesses, partially offset by an increase in fee and commission income from underwriting and sponsorship business.

OPERATING AND FINANCIAL REVIEW

The Group's fee and commission income from securities brokerage and advisory business decreased by 21.6% from RMB5,834.5 million in 2017 to RMB4,573.6 million in 2018, due primarily to a decrease in the Group's brokerage trading volume as a result of the prolonged downturn in the A share stock market and a decrease in the Group's average securities brokerage commission rate mainly as a result of increased competition.

The Group's fee and commission income from asset management business decreased by 18.8% from RMB4,210.2 million in 2017 to RMB3,418.1 million in 2018, mainly as a result of changes of accounting policies in relation to AssetMark to net off certain asset management fees with relevant expenses, partly offset by an increase in the Group's asset management fees generated in China.

The Group's fee and commission income from financial advisory business decreased by 28.3% from RMB905.0 million in 2017 to RMB649.2 million in 2018, as a result of decreases in both the number and transaction value of the Group advised M&A transactions reflecting adverse market conditions.

The Group's fee and commission income from underwriting and sponsorship business increased by 14.1% from RMB1,175.2 million in 2017 to RMB1,340.4 million in 2018, due primarily to an increase in the transaction value of equity offerings underwritten by the Group in China and Hong Kong.

The Group's fee and commission income from futures brokerage business increased by 5.9% from RMB727.5 million in 2017 to RMB770.4 million in 2018, due primarily to the increased future brokerage business volume.

Comparisons between 2017 and 2016

The Group's fee and commission income increased by 13.3% to RMB12,926.3 million in 2017 compared to RMB11,409.9 million in 2016. This was principally a result of increases in the fee and commission income on asset management business, financial advisory business and futures brokerage business, partially offset by decreases in fee and commission income from securities brokerage and advisory business and underwriting and sponsorship business.

The Group's fee and commission income from securities brokerage and advisory business decreased by 23.9% to RMB5,834.5 million in 2017 compared to RMB7,669.1 million in 2016, due primarily to a decrease in the Company's brokerage trading volume as a result of the volatility of the A share market and a decrease in the Group's average securities brokerage commission rate.

The Group's fee and commission income from asset management business increased significantly to RMB4,210.2 million in 2017 compared to RMB1,168.4 million in 2016, due to the Company's consolidation of the asset management fee from AssetMark.

The Group's fee and commission income from underwriting and sponsorship business decreased by 22.3% to RMB1,175.2 million in 2017 compared to RMB1,512.6 million in 2016, due primarily to the decreased number and transaction value of follow-on offerings and debt offerings that the Group underwrote, partially offset by the increased number of IPO transactions that the Group underwrote.

The Group's fee and commission income from financial advisory business increased by 37.2% to RMB905.0 million in 2017 compared to RMB659.4 million in 2016, due primarily to the Group's undertaking of several high-value mandates.

OPERATING AND FINANCIAL REVIEW

The Group's fee and commission income from futures brokerage business increased significantly to RMB727.5 million in 2017 compared to RMB277.2 million in 2016 due to changes in revenue presentation as a result of the VAT reform in China.

Interest income

Comparisons between the three months ended 31 March 2018 and 2019

The Group's interest income decreased by 23.8% to RMB1,879.3 million in the three months ended 31 March 2019 compared to RMB2,467.1 million in the same period in 2018. This was principally due to decreases in the Group's interest income from securities-backed lending, margin financing and securities lending and financial institutions, partially offset by the increase in the Group's interest income from debt instruments at amortised cost.

The Group's interest income from securities-backed lending decreased by 60.0% to RMB264.9 million in the three months ended 31 March 2019 from RMB661.5 million in the same period in 2018, due primarily to decrease in the average balance of securities-backed loans.

The Group's interest income from margin financing and securities lending decreased by 24.3% to RMB817.4 million in the three months ended 31 March 2019 from RMB1,079.7 million in the same period in 2018, due primarily to decrease in average balance of margin loans.

The Group's interest income from financial institutions decreased by 13.5% to RMB506.8 million in the three months ended 31 March 2019 from RMB586.1 million in the same period in 2018, due primarily to decreases in interest rate and time deposits.

The Group's interest income from debt instruments at amortised cost increased by 255.5% to RMB156.4 million in the three months ended 31 March 2019 from RMB44.0 million in the same period in 2018, due primarily to an increase in value in debt investment at amortized cost.

The Group's interest income from other financial assets held under resale agreements decreased by 17.7% to RMB68.9 million in the three months ended 31 March 2019 from RMB83.7 million in the same period in 2018, due primarily to a decrease in average balance of reverse repurchase agreements and downside impact of interest rate.

Comparisons between 2017 and 2018

The Group's interest income increased slightly to RMB9,482.4 million in 2018 from RMB9,348.9 million in 2017. This was principally due to increases in the Group's interest income from debt instruments at amortised cost, other financial assets held under resale agreements and securities-backed lending, largely offset by the decreases in the Group's interest income from financial institutions and margin financing and securities lending.

The Group began to recognise interest income from debt instruments at amortised cost from 2018 due to its adoption of IFRS 9 from 1 January 2018.

The Group's interest income from securities-backed lending increased by 15.0% to RMB2,399.1 million in 2018 from RMB2,085.7 million in 2017, due primarily to an increase in the average balance of securities-backed loans reflecting greater market demand and an increase in average interest rate charged by the Group.

OPERATING AND FINANCIAL REVIEW

The Group's interest income from other financial assets held under resale agreements increased by 53.3% to RMB325.2 million in 2018 from RMB212.1 million in 2017 reflecting the Group's more active cash management activities by investing its surplus cash in low risk financial assets as part of its resale transactions.

The Group's interest income from financial institutions decreased from RMB2,820.7 million in 2017 to RMB2,397.0 million in 2018, due primarily to a decrease in the balances of cash held on behalf of brokerage customers amid unfavourable stock market conditions and a general decline in market interest rate. The Group's interest income from margin financing and securities lending business decreased by 6.5% from RMB4,179.0 million in 2017 to RMB3,906.9 million in 2018 due primarily to a decrease in the average balance of margin loans, resulting from a general decline in market demand for these services amid uncertainties in the stock market.

Comparisons between 2017 and 2016

The Group's interest income increased slightly to RMB9,348.9 million in 2017 compared to RMB8,878.0 million in 2016. This was principally due to an increase in the Group's interest income from securities-backed lending and other financial assets held under resale agreements.

The Group's interest income from securities-backed lending increased by 50% to RMB2,085.7 million in 2017 compared to RMB1,390.2 million in 2016 due primarily to an increase in the average balance of securities-backed loans reflecting greater market demand. The Group's interest income from other financial assets held under resale agreements significantly increased from RMB54.5 million in 2016 to RMB212.1 million in 2017, reflecting the Group's increased cash management activities by investing its surplus cash in low-risk financial assets.

The Group's interest income from margin financing and securities lending business decreased slightly to RMB4,179.0 million in 2017 compared to RMB4,283.4 million in 2016, reflecting a decrease in the prevailing market interest rate. The Group's interest income from financial institutions decreased by 9.9% to RMB2,820.7 million in 2017 compared to RMB3,130.2 million in 2016, due primarily to a decrease in the balances of cash held on behalf of brokerage customers.

Net investment gains

Comparisons between the three months ended 31 March 2018 and 2019

The Group's net investment gains increased by 131.7% from RMB953.4 million in the three months ended 31 March 2018 to RMB2,209.2 million in the same period in 2019. This was principally a result of increases in the Group's net investment gains from investment and trading business as a result of the improved A share stock market conditions.

Comparisons between 2017 and 2018

The Group's net investment gains decreased by 53.8% from RMB7,302.3 million in 2017 to RMB3,374.6 million in 2018. This was principally a result of a decrease in the value of the Group's equity trading and investment due to unfavourable market conditions associated with a highly volatile stock market in 2018, partially offset by increases in the interest income and value of the Group's fixed-income investments due to the increased investment in debt securities and gains on the unrealised fair value changes of derivative financial instruments, such as the OTC options.

OPERATING AND FINANCIAL REVIEW

Comparisons between 2017 and 2016

The Group's net investment gains increased by 83.7% to RMB7,302.3 million in 2017 compared to RMB3,976.1 million in 2016. This was principally a result of the combined effects of (i) an RMB2,759.5 million increase in net realised gains from disposal of available-for-sale financial assets, due primarily to the changes in accounting treatment of the Group's equity investment in Bank of Jiangsu, (ii) changes in unrealised fair value changes of financial instruments at fair value through profit or loss from a loss of RMB1,754.3 million in 2016 to a gain of RMB137.3 million, due to the unfavourable market conditions associated with a highly volatile stock market in 2016 and the improved market conditions in 2017, and (iii) a RMB1,078.1 million decrease in net realised losses from disposal of financial instruments at fair value through profit or loss due primarily to a reduced loss on the gold leasing business on the spot market.

These increases were partially offset by (i) changes in unrealised fair value changes of derivative financial instruments from a gain of RMB1,414.6 million in 2016 to a loss of RMB478.9 million in 2017, reflecting the Group's hedging activities, and (ii) a decrease of RMB893.3 million in net realised gains from disposal of derivative financial instruments due primarily to a decrease in gains of the gold leasing business on the futures market.

Other income and gains

Comparisons between the three months ended 31 March 2018 and 2019

The Group's other income and gains increased by 12.2% from RMB190.0 million in the three months ended 31 March 2018 to RMB213.2 million in the same period in 2019. This was due primarily to an increase in the Group's commodity futures trading and the corresponding income.

Comparisons between 2017 and 2018

The Group's other income and gains decreased by 52.5% from RMB1,745.9 million in 2017 to RMB829.8 million in 2018. This was due primarily to a significant decrease in non-recurring income, reflecting the changes in the accounting treatment due to regulatory directives and requirements of the Group's equity investment in Bank of Jiangsu and investments in certain affiliates in 2017. This was partially offset by an increase of RMB366.5 million in income from commodity sales due to the adoption of IFRS 15, which resulted in a different presentation of income and expenses relating to commodity sales contracts, and an increase of RMB114.3 million in one-off government grants.

Comparisons between 2017 and 2016

The Group's other income and gains increased significantly to RMB1,745.9 million in 2017 compared to RMB367.6 million in 2016. The increase was primarily a result of the changes in the accounting treatment of the Group's equity investment in Bank of Jiangsu and investments in certain affiliates due to regulatory directives and requirements.

Total expenses

Comparisons between the three months ended 31 March 2018 and 2019

The Group's total expenses increased by 10.9% from RMB4,417.0 million in the three months ended March 2018 to RMB4,896.5 million in the same period in 2019, respectively, in the three months ended 31 March 2018 and 2019. This was principally a result of the increases in staff costs, fee

OPERATING AND FINANCIAL REVIEW

and commission expenses, depreciation and amortisation expenses and other operating expenses, partially offset by decrease in interest expenses, reflecting the Group's business growth in the first quarter of 2019.

Comparisons between 2017 and 2018

The Group's total expenses decreased by 6.2% to RMB19,017.3 million in 2018 compared to RMB20,278.7 million in 2017. This was principally a result of the decreases in fee and commission expenses, staff costs and tax and surcharges, partially offset by increases in interest expenses, other operating expenses and provision for impairment losses.

Comparisons between 2017 and 2016

The Group's total expenses increased by 23.0% to RMB20,278.7 million in 2017 compared to RMB16,492.2 million in 2016. This was principally a result of the increases in the fee and commission expenses, interest expenses, staff costs, depreciation and amortisation expenses, reflecting the Group's business growth in 2017.

Fee and commission expenses

Comparisons between the three months ended 31 March 2018 and 2019

The Group's fee and commission expenses increased by 33.0% from RMB680.9 million in the three months ended 31 March 2018 to RMB905.6 million in the same period in 2019. This was principally a result of the substantial increases in fee and commission expenses for futures brokerage and securities brokerage and advisory businesses, reflecting improved market conditions and increased trading activities, and in fee and commission expenses for asset management business mainly as a result of the increase in the Group's AUM.

Comparisons between 2017 and 2018

The Group's fee and commission expenses decreased by 35.0% from RMB4,244.2 million in 2017 to RMB2,757.7 million in 2018. This was principally a result of a substantial decrease in fee and commission expenses for the securities brokerage and advisory business, reflecting unfavourable market conditions and reduced trading activities, and in fee and commission expenses for asset management business mainly as a result of changes in accounting policies in relation to AssetMark to net off certain asset management expenses with relevant fees.

Comparisons between 2017 and 2016

The Group's fee and commission expenses increased by 65.7% to RMB4,244.2 million in 2017 compared to RMB2,561.7 million in 2016. This was principally a result of the substantial increase in fee and commission expenses for the Group's asset management business due to the consolidation of AssetMark.

Interest expenses

Comparisons between the three months ended 31 March 2018 and 2019

The Group's interest expenses decreased by 20.6% to RMB1,376.1 million in the three months ended 31 March 2019 compared to RMB1,733.1 million in the same period in 2018. This was principally due to maturity of some of the Group's corporate bonds, subordinated bonds and structured notes in the first quarter of 2019.

OPERATING AND FINANCIAL REVIEW

Comparisons between 2017 and 2018

The Group's interest expenses increased by 12.5% to RMB6,467.0 million in 2018 compared to RMB5,749.1 million in 2017. This was principally a result of increases in interest expenses on (i) financial assets sold under repurchase agreements, as a result of the increased repurchase transactions to finance the Group's fixed-income investment activities, (ii) short-term debt instruments issued due to an increase in the average balance of the Group's short-term debt instruments and (iii) placements due primarily to an increase in the average balance of placements, which was partially offset by a decrease in interest expense on long-term bonds as a result of the repayment and maturity of certain long-term bonds, a decrease in accounts payable to brokerage clients, due primarily to a decrease in the balance of cash held on behalf of brokerage clients amid unfavourable stock market conditions.

Comparisons between 2017 and 2016

The Group's interest expenses increased by 6.6% to RMB5,749.1 million in 2017 compared to RMB5,393.5 million in 2016. This was principally a result of the increases in the Group's indebtedness.

Staff costs

Comparisons between the three months ended 31 March 2018 and 2019

The Group's staff costs increased by 23.4% from RMB1,326.8 million in the three months ended 31 March 2018 to RMB1,636.7 million in the same period in 2019. This was due primarily to an increase in performance-based staff compensation that reflected the growth in the Group's revenue in the first quarter of 2019.

Comparisons between 2017 and 2018

The Group's staff costs decreased by 23.6% from RMB7,030.2 million in 2017 to RMB5,372.3 million in 2018. This was due primarily to a decrease in performance-based staff compensation that reflected the Group's lower revenue and profit in 2018.

Comparisons between 2017 and 2016

The Group's staff costs increased by 24.5% to RMB7,030.2 million in 2017 compared to RMB5,648.4 million in 2016. This was principally a result of the increases in performance-based staff costs that reflected the growth in the Group's revenue and profit in 2017, the Group's employee number and contributions to employee benefits programmes.

Depreciation and amortisation expenses

Comparisons between the three months ended 31 March 2018 and 2019

The Group's depreciation and amortisation expenses increased by 84.9% to RMB268.6 million in the three months ended 31 March 2019 from RMB145.3 million in the same period in 2018. This was principally a result of the Group's adoption of IFRS 16 starting from January 2019 and the consolidation of certain operating leases as right-of-use assets.

Comparisons between 2017 and 2018

The Group's depreciation and amortisation expenses increased by 10.5% to RMB625.9 million in 2018 from RMB566.3 million in 2017. This was principally a result of the increase in amortisation of other intangible assets, due primarily to the Group's purchase of technology systems and software.

OPERATING AND FINANCIAL REVIEW

Comparisons between 2017 and 2016

The Group's depreciation and amortisation expenses increased by 38.6% to RMB566.3 million in 2017 compared to RMB408.5 million in 2016. This was principally a result of the increase in amortisation expenses, due primarily to the consolidation of AssetMark's intangible assets in November 2016 and the Group's purchase of intangible assets such as technology systems and software.

Tax and surcharges

Comparisons between the three months ended 31 March 2018 and 2019

The Group's tax and surcharges increased by 18.6% to RMB39.6 million in the three months ended 31 March 2019 from RMB33.4 million in the same period in 2018 as a result of the increase in the Group's revenue.

Comparisons between 2017 and 2018

The Group's tax and surcharges decreased by 8.3% to RMB139.7 million in 2018 from RMB152.4 million in 2017, which was mainly to a decrease in VAT surcharges as a result of the decrease in the Group's revenue.

Comparisons between 2017 and 2016

The Group's tax and surcharges significantly decreased by 66.2% to RMB152.4 million in 2017 compared to RMB450.6 million in 2016. This was mainly due to the fact that the effect of VAT reform was greater on the Group in 2017 than in 2016 as such reform started from May 2016.

Other operating expenses

Comparisons between the three months ended 31 March 2018 and 2019

The Group's other operating expenses increased by 19.4% to RMB650.6 million in the three months ended 31 March 2019 from RMB544.8 million in the same period in 2018. This was due primarily to increase in the Group's commodity futures trading and the corresponding operating expenses.

Comparisons between 2017 and 2018

The Group's other operating expenses increased by 22.6% to RMB2,792.0 million in 2018 from RMB2,277.5 million in 2017. This was primarily due to the recognition of cost of commodity sales due to the adoption of IFRS 15 which resulted in a different presentation of income and expenses relating to commodity sales contracts, together with a one-off loss on previously held interest in associate upon disposal.

Comparisons between 2017 and 2016

The Group's other operating expenses increased by 10.2% to RMB2,277.5 million in 2017 compared to RMB2,066.2 million in 2016. This was primarily due to the increases in the Group's rental expenses and advertising and promotion expenses as a result of business growth.

OPERATING AND FINANCIAL REVIEW

Provision for/(reversal of) impairment losses/Net provision for/(reversal of) impairment loss on financial assets

Comparisons between the three months ended 31 March 2018 and 2019

Compared to a net reversal of impairment loss on financial assets of RMB48.0 million in the three months ended 31 March 2018, the Group made net provision for impairment loss on financial assets of RMB21.8 million in the same period in 2019, due primarily to the increases in provisions made for margin financing and securities lending and securities-backed lending businesses as a result of the stricter requirements of the SAC and the stock exchanges.

Comparisons between 2018 and 2017

The Group's net impairment loss on financial assets increased significantly from RMB259.0 million in 2017 to RMB862.7 million in 2018, due primarily to an increase in (i) the Group's provision for impairment losses against securities-backed loans due to the unfavourable market conditions in the PRC stock market and the resulting increase in expected credit risk, and (ii) the Group's provision for impairment losses against certain overdue receivables incurred in its ordinary course of business.

Comparisons between 2017 and 2016

Compared to a reversal of impairment losses of RMB36.7 million in 2016, the Group made provision for impairment losses of RMB259.0 million in 2017, due primarily to increased market risk arising from collaterals mainly in the Group's margin financing and securities lending business and a bond issuer's default on the Group's certain debt investments.

Operating profit

Comparisons between the three months ended 31 March 2018 and 2019

As a result of the foregoing, the Group's operating profit increased by 31.5% from RMB1,865.0 million in the three months ended 31 March 2018 to RMB2,452.5 million in the same period in 2019.

Comparisons between 2017 and 2018

As a result of the foregoing, the Group's operating profit decreased by 50.3% from RMB11,044.7 million in 2017 to RMB5,489.4 million in 2018.

Comparisons between 2017 and 2016

As a result of the foregoing, the Group's operating profit increased by 35.7% to RMB11,044.7 million in 2017 compared to RMB8,139.4 million in 2016.

Share of profit of associates and joint ventures

Comparisons between the three months ended 31 March 2018 and 2019

The Group's share of profit of associates and joint ventures increased to RMB1,025.1 million in the three months ended 31 March 2019 from RMB600.9 million in the same period in 2018, due primarily to a significant increase in the value of the Group's equity interests in associates as a result of a significant increase in stock value of portfolio companies under investment management business.

OPERATING AND FINANCIAL REVIEW

Comparisons between 2017 and 2018

The Group's share of profit of associates and joint ventures increased significantly to RMB959.3 million in 2018 from RMB540.0 million in 2017, due primarily to accounting for the Group's share of profit of Bank of Jiangsu starting from December 2017.

Comparisons between 2017 and 2016

The Group's share of profit of associates and joint ventures increased by 18.9% to RMB540.0 million in 2017 compared to RMB454.0 million in 2016, due primarily to increased profits from the Group's associates, mainly China Southern Asset Management.

Profit before income tax

Comparisons between the three months ended 31 March 2018 and 2019

As a result of the foregoing, the Group's profit before income tax increased by 41.0% from RMB2,465.9 million in the three months ended 31 March 2018 to RMB3,477.6 million in the same period in 2019.

Comparisons between 2017 and 2018

As a result of the foregoing, the Group's profit before income tax decreased significantly from RMB11,584.7 million in 2017 to RMB6,448.7 million in 2018.

Comparisons between 2017 and 2016

As a result of the foregoing, the Group's profit before income tax increased by 34.8% to RMB11,584.7 million in 2017 compared to RMB8,593.4 million in 2016.

Income tax expense

Comparisons between the three months ended 31 March 2018 and 2019

The Group's income tax expense increased by 69.7% from RMB494.6 million in the three months ended 31 March 2018 to RMB839.4 million in the same period in 2019. The Group's effective income tax rate increased from 20.1% in the three months ended 31 March 2018 to 24.1% in the same period in 2019 due to increase in the Group's revenue and decrease in non-taxable income.

Comparisons between 2017 and 2018

The Group's income tax expense decreased by 40.8% from RMB2,176.8 million in 2017 to RMB1,287.8 million in 2018. The Group's effective income tax rate increased from 18.8% in 2017 to 20.0% in 2018 due to the one-off effect of the US federal corporate income tax reduction from 35% to 21% on AssetMark in 2017 and cross-border dividends of overseas subsidiaries in 2018.

Comparisons between 2017 and 2016

The Group's income tax expense increased by 5.0% to RMB2,176.8 million in 2017 compared to RMB2,073.9 million in 2016, which was in line with the increase in taxable income. However, the effective income tax rate reduced from 24.1% in 2016 to 18.8% in 2017, primarily due to the effect of the U.S. tax rate reduction on AssetMark, the Group's U.S. wealth management and technology solutions provider, and an increase in non-taxable income.

OPERATING AND FINANCIAL REVIEW

Profit for the year or period and net margin

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

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions, except %)				
Operating profit ⁽¹⁾	8,139.4	11,044.7	5,489.4	1,865.0	2,452.5
Operating margin ⁽²⁾	33.0%	35.3%	22.4%	29.7%	33.4%
Adjusted operating margin ⁽³⁾⁽⁶⁾	48.8%	51.8%	35.9%	48.2%	48.4%
Profit for the year/period	6,519.5	9,407.9	5,160.9	1,971.3	2,638.2
Net margin ⁽⁴⁾	26.5%	30.0%	21.1%	31.4%	35.9%
Adjusted net margin ⁽⁵⁾⁽⁶⁾	39.1%	44.1%	33.8%	51.0%	52.1%

(1) Operating profit = total revenue and other income – total expenses

(2) Operating margin = operating profit/total revenue and other income

(3) Adjusted operating margin = (operating profit)/(total revenue and other income – fee and commission expenses and interest expenses)

(4) Net margin = profit for the year or period/total revenue and other income

(5) Adjusted net margin = (profit for the year or period)/(total revenue and other income – fee and commission expenses and interest expenses)

(6) Adjusted operating margin and adjusted net margin are not standard measures under IFRS, but are presented here because PRC securities firms present their operating revenues after deduction of fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. The Group believes that the adjusted operating margin and adjusted net margin provide appropriate indicators of the results of operations that are more comparable to other PRC securities firms due to different presentation requirements under PRC GAAP. Prospective investors should be aware that the adjusted operating margin presented in this Prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.

Comparisons between the three months ended 31 March 2018 and 2019

The Group's profit for the period increased by 33.8% from RMB1,971.3 million in the three months ended 31 March 2018 to RMB2,638.2 million in the same period in 2019. This was due to increases in revenue from wealth management, investment and trading and investment management businesses as a result of the favourable market conditions in the first quarter of 2019. The Group's operating margin and net margin increased in the three months ended 31 March 2019, due primarily to a significant increase in institutional services revenue and increased segment margin in the Group's investment management business.

Comparisons between 2017 and 2018

The Group's profit for the period decreased by 45.1% from RMB9,407.9 million in 2017 to RMB5,160.9 million in 2018. This was due to the decrease in revenue from the Group's wealth management business, investment management business and investment and trading business during the market downturn in 2018. The Group's operating margin and net margin both decreased in 2018, due primarily to a net loss in the Group's institutional services business and decreased segment profit margin in its investment management and wealth management businesses.

Comparisons between 2017 and 2016

The Group's profit for the year increased by 44.3% to RMB9,407.9 million in 2017 compared to RMB6,519.5 million in 2016. This was due to general increases in the Group's various revenue streams. The Group's operating margin and net margin improved in 2017 due to (i) non-recurring profit realised in the changes in accounting treatment of the Group's equity investment in Bank of

OPERATING AND FINANCIAL REVIEW

Jiangsu from financial assets to equity investment and (ii) the acquisition and consolidation of AssetMark, which recorded a higher profit margin.

Liquidity and Capital Resources

Overview

Historically, the Group has funded working capital and other capital requirements primarily from cash generated from the Group's business operations. The Group has actively engaged in and significantly expanded various services, particularly the margin financing and securities lending services and securities-backed lending services, which are capital intensive, and therefore the Group has relied on a diverse range of money-market and capital-market financing, such as interbank lending, placements, repurchase transactions, and issuance of short-term and long-term debts.

When determining the amount of capital and other resources to be allocated to each business line, the Group mainly considers its prevailing growth strategy and business focus, the capital requirements and estimated return for each business, risk management and applicable regulatory requirements, such as those in relation to capital adequacy and liquidity management.

The Group intends to finance its future capital requirements through the same sources of funds as discussed above, together with the net proceeds from this Offering.

Cash flows

The following table sets forth selected cash flow statement information for the periods indicated:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Net cash generated from/(used in) operating activities	22,019.9	(6,726.9)	28,457.8	1,645.0	7,646.3
Net cash used in investing activities	(4,462.7)	(12,268.0)	(10,488.2)	(751.0)	(594.7)
Net cash (used in)/generated from financing activities	(5,009.7)	19,089.8	(8,708.6)	(2,440.9)	6,464.8
Net increase/(decrease) in cash and cash equivalents	12,547.5	94.9	9,261.0	(1,546.9)	13,516.4
Cash and cash equivalents at the beginning of the year/period	18,595.8	31,651.6	31,378.6	31,378.6	40,792.3
Effect of foreign exchange rate changes	508.3	(367.9)	152.7	(174.3)	(53.9)
Cash and cash equivalents at the end of the year/period	31,651.6	31,378.6	40,792.3	29,657.4	54,254.8

Operating activities

The Group's cash from operating activities consists primarily of cash generated or used in relation to the commission-based securities business (such as brokerage, underwriting and financial advisory), margin financing and securities lending business, trading of financial assets held for trading, as well as resale and repurchase transactions. Cash flow from operating activities reflects: (i) profit before tax adjusted for non-cash and non-operating items, such as depreciation and amortisation and impairment allowance; (ii) the effects of movements in working capital, such as increase or decrease in

OPERATING AND FINANCIAL REVIEW

margin accounts receivable, cash held on behalf of brokerage customers, financial instruments at fair value through profit or loss, and financial assets held under resale agreements and sold under repurchase agreements; and (iii) other cash items such as income tax paid.

In the three months ended 31 March 2019, the Group had net cash generated from operating activities of RMB7,646.3 million due primarily to the Group's profit before income tax of RMB3,477.6 million and positive movements in working capital. The Group's positive movements in working capital primarily reflected: (i) an increase of RMB30,641.6 million in accounts payable to brokerage clients, (ii) an increase of RMB21,231.0 million in other payables and accruals and (iii) an increase of RMB16,280.8 million in financial assets sold under repurchase agreements. These cash inflows were partially offset by (i) an increase of RMB27,115.1 million in cash held on behalf of brokerage clients, (ii) an increase of RMB25,857.0 million in financial instruments at fair value through profit or loss and (iii) an increase of RMB11,726.0 million in margin accounts receivable.

In 2018, the Group had net cash generated from operating activities of RMB28,457.8 million due primarily to the Group's profit before income tax of RMB6,448.7 million and positive movements in working capital. The Group's positive movements in working capital primarily reflected: (i) a decrease of RMB16,784.0 million in margin accounts receivable as a result of a decrease in the Group's margin financing balance and (ii) an increase of RMB15,108.8 million in financial assets sold under repurchase agreements. These cash inflows were partially offset by (i) an increase of RMB18,351.4 million in financial instruments at fair value through profit or loss, due primarily to an increase of fixed income trading activities, (ii) a decrease of RMB7,853.3 million in accounts payable to brokerage clients, as a result of the unfavourable conditions in the PRC stock market and (iii) a decrease in other payables and accruals of RMB6,999.8 million.

In 2017, the Group had net cash used in operating activities of RMB6,726.9 million due primarily to the Group's profit before income tax of RMB11,584.7 million and negative movements in working capital. The Group's negative movements in working capital primarily reflected: (i) a decrease of RMB25,393.3 million in accounts payable to brokerage customers as a result of reduced brokerage trading volume in 2017; (ii) a decrease of RMB17,367.0 million in other payables and accruals due primarily to the decreased payables to interest holders of consolidated structured entities in the Group's asset management business; and (iii) an increase of RMB9,983.3 million in financial assets held under resale agreements as a result of the growth of the Group's securities-backed lending business. These cash outflows were partially offset by (i) a decrease of RMB29,265.4 million in cash held on behalf of brokerage customers, due primarily to reduced brokerage trading volume in 2017 and (ii) a decrease of RMB12,486.7 million in restricted bank deposits as a result of decreased time deposits under its collective asset management schemes managed by the Group.

In 2016, the Group had net cash generated from operating activities of RMB22,019.9 million due primarily to the Group's profit before income tax of RMB8,593.4 million and positive movements in working capital. The positive movements in working capital primarily reflected: (i) a decrease of RMB48,772.0 million in financial instruments at fair value through profit or loss due to the decreased equity and fixed-income investments and decreased amount of financial instruments at fair value through profit or loss that the Group managed under consolidated structured entities in the Group's asset management business; and (ii) a decrease of RMB37,375.6 million in cash held on behalf of brokerage customers as a result of the unfavourable market conditions in the PRC stock market.

These cash inflows were partially offset by: (i) a decrease of RMB35,638.5 million in accounts payable to brokerage customers as a result of reduced brokerage trading volume in 2016; (ii) a decrease

OPERATING AND FINANCIAL REVIEW

of RMB19,187.9 million in other payables and accruals; (iii) an increase of RMB14,752.0 million in financial assets held under resale agreements due primarily to the growth of the Group's securities-backed lending business; and (iv) a decrease of RMB13,728.6 million in financial assets sold under repurchase agreements as a result of decreased margin loans receivable-backed repurchase in 2016.

Investing activities

The Group's cash outflows from investing activities consist primarily of the Group's purchase of property, equipment, investment properties, other long-term assets, intangible assets, purchase of associates and joint ventures and other investments and purchase of available-for-sale financial assets or debt instruments at amortised cost. The Group's cash inflows from investing activities consist primarily of the proceeds from the disposal of property and equipment, investment properties, intangible assets and available-for-sale financial assets as well as dividends and interest received from associates and other investments.

In the three months ended 31 March 2019, the net cash used in investing activities was RMB594.7 million due primarily to (i) RMB480.9 million in purchase of debt investment measured at amortised cost, (ii) RMB269.6 million in purchases of property and equipment, investment properties, other intangible assets and other non-current assets and (iii) RMB144.4 million in purchases of financial assets through other comprehensive income. The cash outflows were partially offset by (i) RMB187.2 million of dividends received from associates and (ii) RMB156.4 million of Interest income from debt investment at amortised cost.

In 2018, the net cash used in investing activities was RMB10,488.2 million due primarily to (i) RMB10,831.2 million in purchase of debt instruments at amortised cost and (ii) RMB954.7 million in purchase of property and equipment, investment properties, other intangible assets and other non-current assets. The cash outflows were partially offset by (i) RMB1,302.3 million of dividend income and interest income from financial assets through other comprehensive income and debt investment at amortised cost and (ii) RMB 417.5 million of dividends received from associates.

In 2017, the net cash used in investing activities was RMB12,268.0 million due primarily to RMB12,199.9 million in purchases of available-for-sale financial assets of fixed-income investments. These cash outflows were partially offset by: (i) dividends and interest received from available-for-sale financial assets and other investments of RMB645.2 million, primarily equity and fixed-income investments and the investments in third-party financial products; (ii) proceeds on disposal of available-for-sale financial assets of RMB531.1 million; and (iii) dividends received from associates of RMB229.8 million.

In 2016, the net cash used in investing activities was RMB4,462.7 million due primarily to: (i) RMB4,885.0 million in cash paid for acquisition of subsidiaries, net of cash and bank balances acquired, primarily AssetMark; and (ii) purchases of available-for-sale financial assets of RMB4,838.7 million, primarily for unlisted equity investments. These cash outflows were offset by: (i) an increase of RMB4,227.3 million in other limited partners' interest in private equity funds, due primarily to the increase of interest holders of consolidated structured entities designated as financial liabilities at fair value through profit or loss; and (ii) proceeds on disposal of available-for-sale financial assets of RMB1,459.9 million, due primarily to the disposal of equity investments held by the private equity fund management company.

OPERATING AND FINANCIAL REVIEW

Financing activities

Financing activities primarily include issuance of short-term debt instruments and long-term bonds, the distribution of dividends to the shareholders and the payment of interests on the debt instruments.

In the three months ended 31 March 2019, the net cash generated from financing activities was RMB6,464.8 million, due primarily to proceeds from issuance of short-term debt instruments of RMB16,375.8 million and proceeds from issuance of long-term bonds of RMB7,000.0 million, partially offset by the repayment of debt securities issued of RMB14,963.1 million and repayment of bank loans of RMB3,016.8 million.

In 2018, the net cash used in financing activities was RMB8,708.6 million, due primarily to repayment of debt securities issued of RMB75,557.8 million and long-term bonds interest paid of RMB3,720.6 million, partially offset by the proceeds from issuance of short-term debt instruments of RMB46,200.3 million and net proceeds from issuance of A shares of RMB14,207.9 million.

In 2017, the net cash generated from financing activities was RMB19,089.8 million, due primarily to the proceeds from issuance of short-term debt instruments of RMB42,258.3 million and proceeds from issuance of long-term bonds of RMB31,000.0 million, partially offset by repayment of debt securities issued of RMB46,723.3 million.

In 2016, the net cash used in financing activities was RMB5,009.7 million, due primarily to the repayment of debt securities issued of RMB30,837.7 million, which was partially offset by the proceeds from issuance of long-term bonds of RMB29,180.0 million.

OPERATING AND FINANCIAL REVIEW

Indebtedness

The following table sets forth a breakdown of the indebtedness by type as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
				(unaudited, reviewed)
				(RMB in millions)
Short-term placements from other financial institutions	6,650.0	7,030.0	5,813.5	3,179.0
Placements from banks	—	530.0	3,785.2	3,179.0
Placements from China Securities Finance	6,650.0	6,500.0	2,028.3	—
Long-term placements from other financial institutions	—	—	—	—
Placements from banks	—	—	—	—
Placements from China Securities Finance	—	—	—	—
Short-term debt instruments issued	1,621.0	26,656.0	21,124.0	25,587.4
Short-term corporate bonds	—	8,000.0	4,727.9	4,785.3
Short-term subordinated bonds	—	2,000.0	—	—
Short-term offshore bonds	—	—	344.7	338.0
Structured notes	1,621.0	16,656.0	16,051.4	20,464.1
Short-term bank loans	460.3	—	3,015.8	1,475.2
Long-term bank loans due within one year	—	—	15.8	16.9
Long-term bonds due within one year	25,900.0	21,597.5	24,844.6	24,819.9
Corporate bonds	—	16,597.5	17,694.6	19,894.5
Subordinated bond	24,000.0	5,000.0	—	999.7
Offshore bonds	—	—	2,767.4	2,691.7
Structured notes	1,900.0	—	4,382.6	1,234.0
Long-term bonds	49,947.8	55,600.8	38,046.1	42,318.3
Corporate bonds	30,583.2	36,992.3	23,969.7	29,142.1
Subordinated bonds	13,600.0	13,000.0	14,076.4	13,176.2
Offshore bonds	2,764.6	2,608.5	—	—
Structured notes	3,000.0	3,000.0	—	—
Long-term bank loans	—	—	1,682.9	1,645.4
Total	84,579.1	110,884.3	94,542.7	99,042.1

Placements from other financial institutions

Placements from banks

The Group is a participant in the interbank lending market in China and is able to obtain interbank lending to quickly replenish its liquidity. The Group generally pays an interest rate on interbank lending based on the Shanghai Interbank Offered Rate or a pre-determined rate and its interbank lending is typically unsecured. As at 31 March 2019, the balance of the interbank lending was RMB3,179.0 million.

Short-term debt instruments issued

The Group manages short-term liquidity by issuing corporate bonds, subordinated bonds, structured notes and offshore bonds with a term not exceeding one year. As at 31 March 2019, the aggregate balance of the short-term debt instruments issued was RMB25,587.4 million.

OPERATING AND FINANCIAL REVIEW

Corporate bonds

As at 31 March 2019, the Group had one tranche of short-term corporate bonds outstanding with a total principal amount of RMB4.6 billion. The Group's short-term corporate bonds are unsecured and have a term of one year with an interest rate of 5.0% per year.

Subordinated bonds

The Group issues both short-term and long-term subordinated bonds to enhance its capital adequacy and working capital. See “—*Subordinated Bonds*” below.

Structured notes

As at 31 March 2019, the balance of the Group's short-term structured notes was RMB20,464.1 million. The Group's structured notes generally have a term within one year and interest rate ranging from 2.75% to 6.60% per annum which the Group paid to investors.

Long-term bonds

The Group finances its long-term business expansion by issuing corporate bonds, subordinated bonds, structured notes and offshore bonds with a term exceeding one year. As at 31 March 2019, the aggregate balance of its long-term bonds (including short-term portion of long-term bonds) was RMB67,138.2 million.

Corporate bonds

The Group used the net proceeds from the issuance of corporate bonds primarily to replenish its working capital. As at 31 March 2019, the outstanding balance of its corporate bonds (including short-term portion) amounted to RMB49,036.6 million.

The Group believes that its corporate bonds provide it with long-term external funds to support its business expansion.

Subordinated bonds

The Group issues both short-term and long-term subordinated bonds to enhance its capital adequacy and working capital. See “—*Subordinated Bonds*” below.

Structured notes

As at 31 March 2019, the balance of the Group's long-term structured notes (including short-term portion) was RMB1,234.0 million.

Offshore bonds

In October 2014, the Group issued US\$399.7 million of offshore credit enhanced bonds through a wholly-owned subsidiary of Huatai Financial Holdings. Listed on the Hong Kong Stock Exchange, the bonds had an annual interest rate of 3.625% and a term of five years. The Group used the net proceeds from this issue for meeting the business needs, adjusting the debt structure and supplementing the working capital of Huatai Financial Holdings. As at 31 March 2019, the outstanding balance of its offshore bonds (including the short-term portion) was RMB2,691.7 million.

OPERATING AND FINANCIAL REVIEW

In May 2019, the Company's wholly-owned subsidiary Pioneer Reward Limited issued offshore bonds with a principal amount of US\$500 million guaranteed by the Company, with an annual interest rate of 3.375%, to refinance the Group's bonds issued in 2014 and supplement the Group's working capital.

Subordinated bonds

The Group also issues debt securities in China that are subordinated to its other senior indebtedness, such as corporate bonds and bank loans, and only rank before its equity securities in case of liquidation. As part of the subordinated bonds are treated as net capital, issuing subordinated bonds can help strengthen the Group's capital adequacy.

As at 31 March 2019, the Group had five tranches of subordinated bonds outstanding with an aggregate principal amount of RMB14.8 billion. Its subordinated bonds have a term between two and five years and an annual interest rate between 3.30% and 5.65%.

Bank loans

In 2015 and 2016, one of the Group's affiliates incurred offshore short-term bank loans to finance its working capital. Such affiliate was no longer consolidated to the Group's financial statements as at 31 December 2017. The Group's short-term bank loans increased to RMB1,475.2 million as at 31 March 2019, which was incurred by the Group's Hong Kong subsidiary to support its financing business.

In November 2018, AssetMark incurred long-term loans of US\$250 million to finance its working capital. As at 31 March 2019, RMB1,662.3 million of its long-term loans (including short-term portion) remained outstanding.

Capital Expenditures

Its capital expenditures principally comprise expenditures for the purchase of property and equipment, investment properties, other intangible assets and other non-current assets. The following table sets forth its capital expenditures for the periods presented:

	Year ended 31 December			Three months ended 31 March	
	2016	2017	2018	2018	2019
				unaudited	unaudited, reviewed
	(RMB in millions)				
Cash payment for purchase of property and equipment, investment properties, other intangible assets and other non- current assets	600.4	377.6	954.6	109.0	269.6

In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, the Group's capital expenditures were primarily used for constructing the Group's headquarters building and the acquisition of IT systems and software.

OPERATING AND FINANCIAL REVIEW

Contractual Obligations and Commitments

Capital commitments

The following table below sets forth the Group's capital commitments as at the dates indicated:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
				(unaudited, reviewed)
	(RMB in millions)			
Contracted, but not provided for:	73.0	791.1	1,770.6	9.7

The Group's capital commitments were related primarily to constructing the Group's headquarters building in 2016 and 2017 and related to the Group's hard underwriting obligations in its investment banking business in 2018 and the three months ended 31 March 2019.

Contingent liabilities

As at 31 March 2019, the Group was not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, would materially adversely affect the Group's financial position or results of operations, though there can be no assurance that this will be the case in the future.

Off-Balance Sheet Arrangements

As at 31 March 2019, the Group did not have any outstanding off-balance sheet guarantees or foreign currency forward contracts, except that a counter-guarantee which the Group provided to a PRC commercial bank in the amount of US\$400 million in relation to the Group's offshore bonds issued in 2014.

Significant Accounting Policies and Estimates

The Group has identified certain accounting policies and estimates significant to the preparation of the financial statements in accordance with IFRS. The Audited Consolidated Financial Statements in F-pages to this Prospectus set forth these significant accounting policies in note 2, which are important for the understanding of the Group's financial condition and results of operations.

Some of the accounting policies involve subjective assumptions, estimates and judgements that are discussed in note 2 of the Audited Consolidated Financial Statements in F-pages to this Prospectus. In the application of the accounting policies, the management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed by the management on an ongoing basis.

The management has identified below the accounting policies, estimates and judgements that they believe are critical to the preparation of the financial statements.

OPERATING AND FINANCIAL REVIEW

Significant accounting policies

Financial Instruments — Policy applicable before 1 January 2018

Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

OPERATING AND FINANCIAL REVIEW

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than:

- those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or
- those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

OPERATING AND FINANCIAL REVIEW

Financial Instruments — Policy applicable from 1 January 2018

Recognition and initial measurement

Financial instruments are recognised/derecognised on the date the Group commits to purchase/sell the investment. Financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVTPL for which transaction costs are recognised directly in profit or loss. Financial instruments are subsequently accounted for as follows, depending on their classification.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets — Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

OPERATING AND FINANCIAL REVIEW

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets — Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets — Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

OPERATING AND FINANCIAL REVIEW

Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities — Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. The fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where the discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instruments with similar terms and conditions at the end of the report period. Where other pricing models are used, inputs are based on market data at the end of the report period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

OPERATING AND FINANCIAL REVIEW

Impairment of financial assets — Policy applicable before 1 January 2018

The Group reviews carrying amounts of financial assets other than those at fair value through profit or loss to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have an impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but is not limited to:

- significant financial difficulty of the borrower or issuer;
- a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties of the issuer;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loans and receivables

The Group assesses impairment losses on a collective basis. Loans and receivables are grouped for similar ageing characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is

OPERATING AND FINANCIAL REVIEW

reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. The Group generally considers a significant decline to be one in which the fair value is below its original cost by 50% or more or a prolonged decline to be one in which fair value is below cost in declining trend for 12 months or longer, upon which impairment loss is recognised. The Group also takes into consideration other specific relevant factors through the whole investing period when assessing whether there is objective evidence that the available-for-sale equity investment is under a significant or prolonged decline in the fair value.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investment increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

Impairment of financial assets — Policy applicable from 1 January 2018

Non-derivative financial assets

Financial instruments and contract assets

The Group recognises loss allowances for expected credit loss (ECLs) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

OPERATING AND FINANCIAL REVIEW

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no

OPERATING AND FINANCIAL REVIEW

significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or, where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset each other, and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

Equity instruments

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all the liabilities. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs the Group paid for repurchasing its own equity instruments are deducted from equity.

Derivative Financial Instruments — Policy applicable before 1 January 2018

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active markets or are determined using valuation techniques, including the discounted cash flow model and the options pricing model, as appropriate.

OPERATING AND FINANCIAL REVIEW

All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

Derivative Financial Instruments and Hedge Accounting — Policy applicable from 1 January 2018

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Asset-backed securities

The Group securitises the financial assets, which generally results in the sale of these financial assets to structured entities. The structured entities, in turn, issue asset-backed securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, or other residual interests. For asset securitisation business, the Group has applied the accounting policies set out in note 2(4) of the Audited Consolidated Financial Statements in F-pages when assessing consolidation of the structured entities and applied the accounting policies described in note 2(8)(iv) of the Audited Consolidated Financial Statements in F-pages when assessing whether or not to derecognise the transferred financial assets.

Margin Financing and Securities Lending

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

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

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

Financial Assets Held under Resale and Sold under Repurchase Agreements

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

OPERATING AND FINANCIAL REVIEW

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses, respectively.

Revenue Recognition — Policy applicable before 1 January 2018

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

Commission income from brokerage business

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.

Underwriting and sponsor fees

Underwriting and sponsor fees are recognised when the obligation of underwriting or sponsorship is completed, that is, the economic interests may flow into the Group and the relevant revenue and costs may be calculated reliably.

Advisory fees

Revenue arising from advisory services is recognised on completion of such services.

Asset management fees

Asset management fees are recognised when the Group is entitled to receive the income under the asset management agreement.

Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity investments.

OPERATING AND FINANCIAL REVIEW

Other income

Other income is recognised on an accrual basis.

Revenue and Other Income — Policy applicable from 1 January 2018

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a variable consideration, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer and includes in the transaction price some or all of the variable consideration estimated, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

Commission income from brokerage business

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.

Underwriting and sponsor fees

Underwriting fee is recognised when the Group has fulfilled its obligations under the underwriting contract.

Depending on contract terms, sponsor fees are recognised progressively over time using a method that depicts the Group's performance, or at a point in time when the service is completed.

Advisory fees

Depending on the nature of the advisory services and the contract terms, advisory fees are recognised progressively over time using a method that depicts the group's performance, or at a point in time when the advisory service is completed.

OPERATING AND FINANCIAL REVIEW

Asset management fees

Asset management fees include periodic management fees calculated based on assets under management and performance-based fees. The fees are recognised progressively over time using a method that depicts the group's performance, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Dividend income

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Other income

Other income is recognised on an accrual basis.

Significant accounting estimates and judgements

(i) Fair value of financial instruments

Financial instruments at fair value through profit or loss, available-for-sale investments and financial assets at fair value through other comprehensive income are measured at fair value at the end of the year and it is usually possible to determine their fair values within a reasonable range of estimates.

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

OPERATING AND FINANCIAL REVIEW

(ii) Impairment of available-for-sale financial assets (Applicable before 1 January 2018)

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, we assess periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgement which would affect the amount of impairment losses.

(iii) Impairment of capital-based intermediary businesses (Applicable before 1 January 2018)

The Group reviews the capital-based intermediary businesses (including margin financing and securities lending, securities-backed lending and stock repurchase) to assess the impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment. The Group makes an estimate of the value of the collaterals received from the customers firstly on an individual basis, then on a collective basis in determining the impairment. The methodology and assumptions used for estimating impairment of capital-based intermediary businesses are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(iv) Impairment of receivables (Applicable before 1 January 2018)

Receivables that are measured at amortised cost are reviewed at each end of reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor and other factors. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

(v) Impairment of non-financial assets (Applicable before 1 January 2018)

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

(vi) Measurement of ECL (Applicable after 1 January 2018)

The following significant judgements are required in applying the accounting requirements for measuring the ECL.

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

OPERATING AND FINANCIAL REVIEW

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Forward-looking information

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss given default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Loss ratio (LR)

LR represents the Group's expectation of the likelihood and extent of loss on exposure based on the relevant loan to collateral ratio. The Group uses historical loss rates based on publicly available information and assesses their appropriateness.

(vii) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate

OPERATING AND FINANCIAL REVIEW

to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(viii) Depreciation and amortisation

Property and equipment, investment property, intangible assets, leasehold improvements and long-term deferred expenses are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(ix) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(x) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset management schemes where the Group involves as the manager or investment consultant, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the Group is a principal. The asset management scheme shall be consolidated if the Group acts in the role of principal.

Recently issued accounting pronouncements

A list of recently issued accounting pronouncements that are relevant to the Group is included in note 56 to the Unaudited Condensed Consolidated Financial Statements included elsewhere in this Prospectus.

Net Capital and Other Regulatory Requirements

In accordance with the Administrative Measures for the Risk Control Indicators of Securities Companies in China, the Company has established a dynamic monitoring mechanism on Net Capital to

OPERATING AND FINANCIAL REVIEW

comply with statutory net capital requirements and other regulatory standards to maintain capital adequacy. In addition, the Company also needs to maintain a minimum amount of net capital necessary to engage in its securities brokerage, investment banking, trading and investment, asset management, margin financing and securities lending businesses. See “*Regulation—Corporate Governance and Risk Control of Securities Firms*”. As at 31 December 2016, 2017 and 2018 and 31 March 2019, the Company was in compliance with all capital adequacy and risk control indicator requirements.

The following table sets forth the Company’s Net Capital and key regulatory risk control indicators that it prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as at the dates indicated:

	As at 31 December			As at 31 March	Warning level ⁽¹⁾	Minimum / Maximum level
	2016	2017	2018	2019		
Net Capital ⁽²⁾ (RMB in billions)	45.1	46.7	59.6	61.6	N/A	N/A
Risk coverage ratio ⁽³⁾	206.7%	193.8%	281.9%	260.2%	≥120%	≥100%
Capital leverage ratio ⁽⁴⁾	21.4%	19.1%	24.6%	22.9%	≥9.6%	≥8%
Liquidity coverage ratio ⁽⁵⁾	246.1%	619.3%	648.3%	257.5%	≥120%	≥100%
Net stable funding ratio ⁽⁶⁾	139.7%	130.4%	141.0%	131.8%	≥120%	≥100%
Net Capital/Net assets	59.4%	59.4%	62.8%	63.1%	≥24%	≥20%
Net Capital/liabilities	38.1%	29.8%	44.3%	39.2%	≥9.6%	≥8%
Net assets/liabilities	64.1%	50.1%	70.5%	62.2%	≥12%	≥10%
Value of proprietary equity securities and derivatives held/Net Capital	55.4%	60.5%	30.1%	37.6%	≤80%	≤100%
Value of proprietary fixed-income securities and derivatives held/Net Capital	66.0%	108.2%	139.0%	161.9%	≤400%	≤500%

- (1) Warning ratios are set by the CSRC as follows, according to the Risk Control Indicator Measures: If the risk control indicator is required to stay above a certain level, then the warning ratio is 120% of the stipulated minimum requirement, and if the risk control indicator is required to stay below a certain level, then the warning ratio is 80% of the stipulated maximum requirement.
- (2) Net capital refers to the sum of a securities firm’s core net capital and ancillary net capital. Core net capital is measured by subtracting from net assets the risk adjustments required to be made to a securities firm’s assets and contingent liabilities, and further adding or subtracting any other adjustments determined or authorised by the CSRC. Ancillary net capital is measured by long-term subordinated debt multiplied by the stipulated percentages, and further adding or subtracting any other adjustments determined or authorised by the CSRC.
- (3) Risk coverage ratio refers to Net Capital divided by the sum of various risk provisions (which refers to capital required to cover unexpected losses due to market risk, credit risk and operational risk, among other things, in the course of various businesses of securities firms as stipulated in the Regulations on the Calculation Standard for Risk Capital Reserve of Securities Companies).
- (4) Capital leverage ratio refers to core net capital divided by on balance sheet and off balance sheet assets.
- (5) Liquidity coverage ratio refers to high quality liquidity assets divided by net cash outflows for the next 30 days.
- (6) Net stable funding ratio refers to available stable funds divided by required stable funds.

The Group closely monitors all risk control indicators and adopts a forewarning and reporting mechanism in the risk management system that is more stringent than the regulatory warning levels to minimise compliance risk. Failure to comply with these requirements may result in the CSRC imposing penalties on the Group, or limiting the scope of its business, or disciplinary action, which could, in turn, have a material and adverse effect on the Group’s financial condition and results of operations.

Qualitative and Quantitative Disclosures About Market Risk

The Group has designed a risk management and control system to measure, monitor and manage financial risks arising in the ordinary course of business. See “*Risk Management*” and note 59 of the Financial Statements in the F-226 to this Prospectus for an overview of the risk management processes. The main financial risks the Group faces in the ordinary course of business are credit risk,

OPERATING AND FINANCIAL REVIEW

liquidity risk and market risk. As the Group expands the business by offering new products and services, doing business with individuals and entities that are not within traditional clients and counterparty base, and entering new geographical markets, the Group is exposed to new regulatory and business challenges and risks, and the complexity of the risks the Group faces has increased. The following discussion of the main financial risks and the estimated amounts of the risk exposure generated by the risk measurement models are forward-looking statements. These analyses and the results of the risk measurement models are not, however, predictions of future events, and the actual results may be significantly different from the analyses and results due to events in the global economy or the markets where the Group operates, as well as other factors described below.

Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The following table sets forth the maximum credit risk exposure, being the carrying amount of the respective recognised financial assets before the effect of mitigation through the use of collateral and other credit enhancement:

	As at 31 December			As at 31 March
	2016	2017	2018	2019
				(unaudited, reviewed)
	(RMB in millions)			
Debt investment at amortised cost	—	—	16,274.2	16,753.4
Held-to-maturity investments	5.0	—	—	—
Refundable deposits	8,158.6	7,302.3	7,836.5	8,574.1
Accounts receivable	991.4	1,980.3	3,090.2	5,197.1
Other receivables and prepayments	4,815.9	5,874.7	572.5	594.8
Margin accounts receivable	56,605.1	59,991.5	46,188.9	57,933.5
Financial assets at fair value through other comprehensive income	—	—	606.8	770.8
Available-for-sale financial assets	980.4	15,111.9	—	—
Financial assets held under resale agreements	46,331.2	61,805.3	43,556.6	43,122.0
Financial assets at fair value through profit or loss	52,345.1	56,212.1	83,454.4	105,502.2
Derivative financial assets	106.6	391.7	1,933.9	948.1
Clearing settlement funds	1,228.8	1,147.5	3,023.4	2,090.0
Cash held on behalf of brokerage clients	94,568.9	65,303.5	58,947.0	86,062.1
Bank balances	45,229.8	27,025.9	28,200.4	35,255.1
Total maximum credit risk exposure	311,366.8	302,146.7	293,684.8	362,803.2

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

The Group was exposed to three types of credit risk: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses arising from default of customers in credit business such as margin financing, securities lending and securities-backed lending and stock repurchases; (iii) counterparty credit risk from a counterparty's default on the derivative transaction, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives.

The Group uses the risk management systems to monitor the credit risk on a real-time basis, keeps track of the credit risk of the Group's business products and its transaction counterparties, provide analyses and pre-warning reports, and adjust its credit limits in a timely manner. The Group will also measure the credit risks of its major operations through stress test and sensitivity analysis.

OPERATING AND FINANCIAL REVIEW

For credit risk in debt securities trading, the Group monitors the issuers and bonds. The Group establishes the credit rating framework and conducts research on the debt securities that the Group holds. The Group also assesses the creditability of counterparties to mitigate related default risk. In respect of margin financing and securities lending, securities-backed lending, stock repurchases business and OTC derivative transaction, the Group evaluates the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determine the customers' credit rating. Penalties for defaults are specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending, stock repurchases business and OTC derivative transaction and promptly communicates with customers on any abnormalities identified to avoid defaults. In respect of innovative credit business, preliminary due diligence is performed with a comprehensive project feasibility report and a due diligence report submitted for approval by the Group before a project can be launched.

Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes: (i) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small; and (ii) funding liquidity of being unable to meet financial obligations when they become due.

The following tables show the details of the remaining contractual maturities as at 31 December 2016, 2017 and 2018 and 31 March 2019 of the Group's non-derivative financial liabilities and derivative financial liabilities. Analysis of non-derivative financial liabilities is based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the period) and the earliest date the Group can be required to pay.

As at 31 December 2016

173

OPERATING AND FINANCIAL REVIEW

As at 31 December 2017							
Financial Liabilities	Carrying amount	Overdue/ repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Short-term bank loans	—	—	—	—	—	—	—
Short-term debt instruments issued	26,656.0	—	1,695.6	7,068.4	18,910.1	—	27,674.1
Placements from other financial institutions	7,030.0	—	500.7	3,589.0	3,107.4	—	7,197.1
Accounts payable to brokerage clients	67,335.5	67,335.5	—	—	—	—	67,335.5
Other payables and accruals	59,663.0	57,996.6	1,002.7	663.7	—	—	59,663.0
Financial assets sold under repurchase agreements	24,921.5	—	22,441.2	—	1,545.3	1,001.9	24,988.4
Derivative financial liabilities	1,642.3	—	8.0	64.2	730.9	839.2	1,642.3
Financial liabilities at fair value through profit or loss	14,381.4	239.8	99.1	80.7	11,744.9	955.8	14,510.2
Long-term bonds	77,198.3	—	—	228.0	24,688.1	54,364.4	85,586.5
Total	278,828.0	125,571.9	25,747.3	11,694.0	60,726.7	57,161.3	288,597.1
As at 31 December 2018							
Financial Liabilities	Carrying amount	Overdue/ repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Short-term bank loans	3,015.8	—	165.3	2,867.7	—	—	3,033.0
Short-term debt instruments issued	21,124.0	—	6,515.3	3,482.3	11,303.3	—	21,300.9
Placements from other financial institutions	5,813.5	—	2,253.7	1,538.2	2,092.3	—	5,884.2
Accounts payable to brokerage clients	59,492.2	59,492.2	—	—	—	—	59,492.2
Other payables and accruals	53,230.8	50,988.0	1,120.0	172.8	950.0	—	53,230.8
Financial assets sold under repurchase agreements	40,095.1	—	33,068.1	1,230.3	6,120.9	—	40,419.3
Derivative financial liabilities	776.1	—	50.9	56.9	620.0	48.3	776.1
Financial liabilities at fair value through profit or loss	5,200.0	1,438.6	1,437.0	—	—	888.1	5,201.0
Long-term bonds	62,890.7	—	—	3,154.6	23,754.2	40,974.3	67,883.1
Long-term bank loans	1,698.7	—	—	32.0	94.5	482.4	2,059.0
Total	253,336.9	111,918.8	44,610.3	12,534.8	44,935.2	42,393.1	259,279.6

OPERATING AND FINANCIAL REVIEW

As at 31 March 2019									
Financial liabilities	Carrying amount	Overdue/ repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Undated	
					(RMB in millions)				Total
Short-term bank loans	1,475.2	—	1,206.6	272.2	—	—	—	—	1,478.8
Short-term debt instruments issued	25,587.4	—	5,770.4	12,323.2	7,637.2	—	—	—	25,730.8
Placements from other financial institutions	3,179.0	—	1,120.6	1,043.3	1,048.9	—	—	—	3,212.8
Accounts payable to brokerage clients	90,133.8	90,133.8	—	—	—	—	—	—	90,133.8
Other payables and accruals	75,622.2	80,678.0	903.5	151.4	1,159.5	459.6	17.4	—	83,369.4
Financial assets sold under repurchase agreements	56,375.9	—	42,514.9	2,521.7	11,577.0	—	—	—	56,613.6
Derivative financial liabilities	1,854.3	—	129.5	481.1	1,138.9	104.8	—	—	1,854.3
Financial liabilities at fair value through profit or loss	4,419.5	102.8	173.6	94.4	1,649.8	888.1	1,556.6	—	4,465.3
Long-term bonds	67,138.2	—	5,249.0	5,072.0	16,981.5	45,199.1	—	—	72,501.6
Long-term bank loans	1,662.3	—	—	31.3	92.5	472.1	1,419.0	—	2,014.9
Total	327,447.8	170,914.6	57,068.1	21,990.6	41,285.3	47,123.7	2,993.0	—	341,375.3

176

OPERATING AND FINANCIAL REVIEW

Currency risk

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation of foreign exchange rates. The Group adopts sensitivity analysis to measure currency risk.

Assuming that all other risk variables remained constant and without consideration of risk management measures undertaken by the Group, a 10% strengthening of the Renminbi against the US dollar and the Hong Kong dollar would have increased or decreased the Group's equity and net profit by the amount shown below, the effect of which is in RMB and translated with the spot rate:

	Sensitivity of net profit			
	As at 31 December			As at 31 March
	2016	2017	2018	2019
				(unaudited, reviewed)
	(RMB in millions)			
Currency				
US dollar	2.0	(483.2)	(437.6)	(430.0)
Hong Kong dollar	(54.4)	(218.6)	(214.5)	(218.6)

	Sensitivity of equity			
	As at 31 December			As at 31 March
	2016	2017	2018	2019
				(unaudited, reviewed)
	(RMB in millions)			
Currency				
US dollar	(56.7)	(541.2)	(465.6)	(457.4)
Hong Kong dollar	(54.4)	(219.3)	(237.1)	(240.7)

A 10% weakening of the Renminbi against the US dollar and the Hong Kong dollar at the dates indicated would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

Due to the above assumptions, the result of sensitivity analysis on exchange rate changes may be different, compared with the actual changes in the Group's net profit and equity that may arise with this.

Price risk

The Group is exposed to equity price changes arising from equity investments concluded in financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income. Price risk is mainly the proportionate fluctuation in the Group's net profits due to the price fluctuation of the financial instruments at fair value through profit or loss and the proportionate fluctuation in the Group's equity due to the price fluctuation of the financial instruments measured at fair value.

OPERATING AND FINANCIAL REVIEW

Sensitivity analysis

The analysis below is performed to show the impact on the Group's net profit and equity due to change in the prices of equity securities by 10% with all other variables held constant.

Sensitivity of net profit				
	As at 31 December			As at 31 March
	2016	2017	2018	2019 (unaudited, reviewed)
(RMB in millions)				
Increase by 10%	73.6	897.2	2,347.5	2,839.8
Decrease by 10%	(73.6)	(897.2)	(2,347.5)	(2,839.8)

Sensitivity of equity				
	As at 31 December			As at 31 March
	2016	2017	2018	2019 (unaudited, reviewed)
(RMB in millions)				
Increase by 10%	3,282.4	3,109.5	3,086.3	3,636.2
Decrease by 10%	(3,282.4)	(3,109.5)	(3,086.3)	(3,636.2)

The sensitivity analysis indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the period and had been applied to re-measure the financial instruments that the Group holds which expose the Group to equity price risk at the end of the period. It is also assumed that the fair value of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2016, 2017 and 2018 and the three months ended 31 March 2019.

RISK MANAGEMENT

Overview

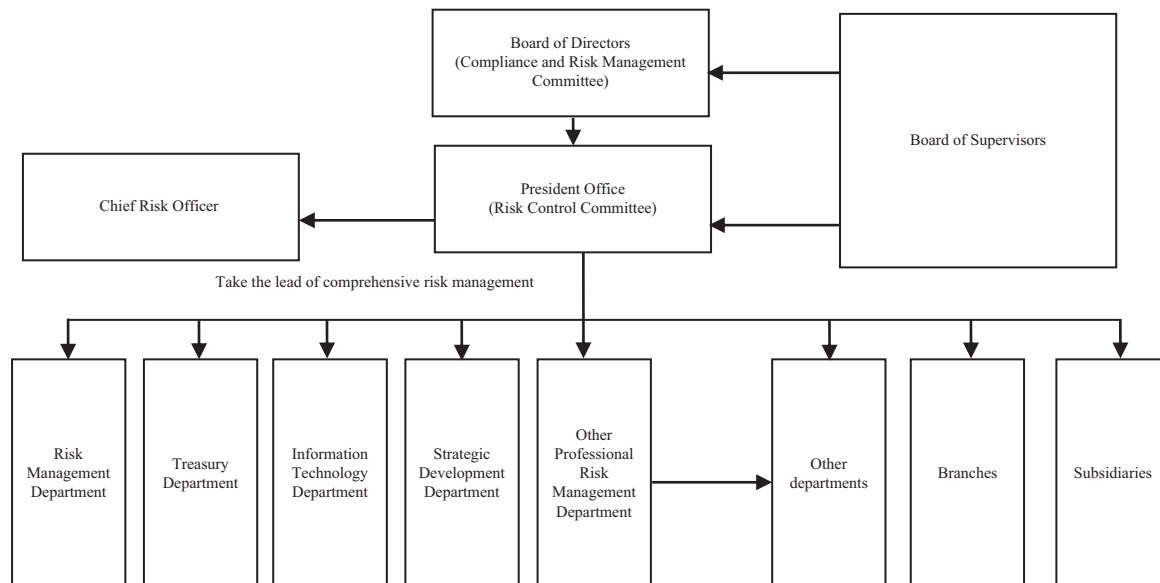
The Group has established a comprehensive risk management system, which emphasises full coverage of all business lines and types of risks and engages the entire staff of the Group.

The Group has a systematic risk management structure with a clear delineation and specialisation of tasks and duties. The Group values the application of technology in risk management. The usage of its internal IT system improves the Group's capabilities to identify, assess and control risks as well as the efficiency of the entire risk management system. The Group has set out clear risk tolerance policies to safeguard the implementation of its development strategies. Moreover, the Group has incorporated all its subsidiaries into the overall risk management framework.

Risk Management Structure

In accordance with the requirements of the *Guidelines for the Internal Control of Securities Firms* and taking into account its operational needs, the Company has established a five-level risk management structure, consisting of: (i) the Board and its Compliance and Risk Management Committee; (ii) Board of Supervisors; (iii) President Office and its Risk Control Committee; (iv) the Risk Management Department and other professional risk management departments; and (v) other departments, branches and subsidiaries.

The following chart sets out the Group's risk management structure:



Board

The Board is ultimately responsible for the overall risk management system. Its responsibilities include: (i) ratifying fundamental risk management policies; (ii) approving risk preference, risk tolerance and significant risk limits; and (iii) reviewing the periodic risk evaluation reports, etc.

The Compliance and Risk Management Committee is tasked by the Board to undertake risk management responsibilities, which mainly comprise: (i) reviewing and advising on the overall compliance and risk management targets and fundamental policies; (ii) evaluating and making

RISK MANAGEMENT

recommendations on the risks of major decisions which require the Board's review, as well as the solutions to these risks; and (iii) reviewing and making recommendations on risk evaluation reports which require the Board's review.

Board of Supervisors

The Board of Supervisors is responsible for supervising overall risk management, which includes supervising and examining the performance of the Board and President Office in risk management and correcting any improper performance.

President Office

The President Office is the executive body under the authorisation and approval of the Board. It implements routine risk management tasks and is primarily responsible for overall risk management. The Risk Control Committee is established under President Office. Its major tasks include making decisions on significant issues which have been authorised by President Office and setting risk tolerance levels in each business line. The Company has a Chief Risk Officer who is responsible for leading all risk management departments and overall risk management.

Risk Management Department and other Professional Risk Management Departments

The relevant departments in charge of risk management include:

- *Risk Management Department.* This is responsible for the overall risk management and managing the Company's market risk, credit risk and operational risk. More specifically, its responsibilities include: improving the Company's comprehensive risk management system; monitoring, measuring, evaluating and reporting the overall risk level; leading all the risk management departments to make risk management policies regarding the risks in corporate governance and business development; supervising and examining other issues in risk management; and conducting independent risk assessments and evaluations of the innovative businesses and businesses or projects that may be exposed to significant risks.
- *Treasury Department.* This is mainly responsible for managing liquidity risks. Its responsibilities include: compiling risk management policies; assigning responsibilities between risk management and execution; identifying, monitoring, assessing, addressing and reporting liquidity risks; establishing and monitoring liquidity risk limits; and organising emergency drills and stress tests.
- *Information Technology Department.* This is responsible for information technology risk management. Its major responsibilities include: compiling information technology risk management policies and operational procedures and guiding and supervising their implementation; setting up a procedure to identify, assess, monitor, address and report information technology risks; conducting risk self-examination; and organising emergency drills.
- *Strategic Development Department.* This is responsible for managing reputational risk. Its responsibilities include: formulating and implementing brand strategy; public relations and crisis management, so as to maintain and improve the Group's brand image; and communicating with news media, monitoring public opinions on the Group and clarifying misrepresentations and omissions.

RISK MANAGEMENT

- Other departments, branches and subsidiaries are responsible for managing the risks arising from their own business lines. They are responsible for implementing the policies, procedures and measures made by the Company's risk management departments. The Internal Audit Department is responsible for auditing and examining the effectiveness and execution of risk management procedures as well as conducting an overall evaluation of the Group's risk management system.

Risk Management Policies

The Group has established comprehensive and multi-level risk management policies.

At Board level, the Group publishes the Fundamental Risk Management Policy. The policy clarifies the risk management structure and responsibilities, improves the risk preference and risk tolerance system, and covers the risk management requirements for subsidiaries.

At operation and management level, the Group makes risk management policies and publishes guidelines for controlling market risk, liquidity risk, credit risk, operational risk, reputational risk and information technology risk. The policies clarify the risk management requirements, including the requirements for subsidiaries. The Group has established risk management policies in key areas such as risk management and authorisation in subsidiaries, innovative businesses, risk monitoring indicators and stress tests.

At business level, the Group makes specific risk management policies, which clearly define the risk management requirements of various business segments, including wealth management business, institutional service business, investment management business and international business.

Risk Management Systems

The Group attaches great importance to IT systems in risk management. It utilises technology to secure the essential procedures in risk control, expand and deepen the coverage of risk management and increase the efficiency of the whole risk management system.

The Group has independently developed the Enterprise Risk Management Platform that covers all businesses, subsidiaries and branches. The platform is characterised by modelling methods and system data coverage, which help the Group build up a centralised cross-business and cross-subsidiaries risk monitoring, analysis and management system, which aggregates scattered risk information underlying in various business lines and products. By frequently refreshing the data, the platform also makes the risk management coverage more effective and identifies risks more efficiently.

The Group has developed a management system that particularly supervises the core risk control indicators of capital and realises the goal of monitoring, assessing, forecasting and reporting such Group level indicators.

The Group has established a variety of professional risk management systems, including market risk measurement system, credit risk analysis system, operational risk management system, and liquidity risk management system. Therefore, the Group is able to evaluate and quantitatively analyse the professional risks at the company level. At the same time, the effectiveness and efficiency of the professional risk management has been strongly enhanced.

RISK MANAGEMENT

The Group has built up technical systems to support each business line. By anticipatorily controlling the limits of all the risk indicators, the system secures the key process in business operation and risk control.

Risk Management Procedures

The Group has established a comprehensive risk management process for identifying, assessing, monitoring and inspecting, addressing and reporting risks:

- *Identifying risks:* Business departments, branches, and subsidiaries identify, collect and analyse the risk factors and their sources, based on their own business features, business development and market changes. Leading risk management departments also classify these risks more sophisticatedly from a professional risk management and control perspective.
- *Assessing risks:* The Group has risk control and self-assessment mechanisms to identify, assess and classify potential risks by different risk levels based on their possibility of occurrence and influence level if occurring. The Group optimises business processes, improves control measures, designs and performs tests to assess the effectiveness of its risk control. At the same time, the Group evaluates residual risks based on its inherent risk level and the results from risk control assessments. Such mechanism to evaluate residual risks has been perfected and optimised continuously. From the perspective of professional risk management and control, the Group's leading risk management departments adopt both quantitative and qualitative methods to assess risks and their potential impacts. The Risk Management Department pays attention to correlation between different risks and carefully assesses the overall risk that the Group faces.
- *Monitoring and inspecting risks:* The Group has established a multi-level risk-indicating system and hierarchical monitoring mechanism. First, individual business departments are responsible for inspecting and monitoring their own business and management risks. Then, the leading risk management departments, from a professional risk management and control perspective, supervise the business departments' risk control work and monitor overall risk at the Group level. In addition, the Group has established a mark-to-market monitoring mechanism which monitors key risk indicators systematically. This allows the Group to monitor changes in risk indicators in order to timely forecast, report and respond when risks are too high.
- *Addressing risks:* Based on the results of risk assessment and forewarning, the Group has formulated risk avoidance, mitigation, transfer and retention strategies matching the Group's risk preference. These strategies may include asset impairment, risk hedging, capital supplement, scale adjustment, asset liability management and other measures. For significant risks and emergencies such as liquidity crisis and trading system failure, the Group has separately implemented risk emergency response mechanisms and procedures, formulated emergency measures and plans, clarified the triggering conditions for emergency response, and laid down the organisational system, measures, methods and procedures for such kind of risk disposal. The Group also continuously optimises the above mechanisms through conducting pressure tests and emergency rehearsals.
- *Reporting risks:* The Group has built up a multi-level risk reporting mechanism to timely, comprehensively and accurately reflect risks of the Group. This ensures that the risk

RISK MANAGEMENT

information is communicated effectively within each business department and across business departments. The Group has established a periodic risk reporting system which requires daily, monthly and annual risk reports. Business departments and subsidiaries timely report to the Risk Management Department their risks incurred from their professional and daily operations. Then, the Risk Management Department reports the overall risk situation of the Group to the Chief Risk Officer and President's Office on a regular or irregular basis. The Group has separate reporting mechanisms for emergencies and significant risk incidents to ensure the immediate reporting of this kind of risk and to allow for speedy and effective risk management.

Monitoring and Management of Major Risks

The Group monitors and manages market risk, credit risk, liquidity risk, operational risk, compliance risk, information technology risk and reputational risk in its businesses.

Market Risk

Market risk refers to the possibility of loss or decrease in the income of the Group resulting from changes in the market, including the risk of price fluctuation in equity-based assets, interest rate risk and exchange rate risk. The market risk mainly arises from investment and trading business.

To manage market risk, the Group has adopted the following methods:

- comprehensively identifying price fluctuations in interest rates, stocks, exchange rates, commodities and other financial assets, and evaluating and reporting market risks based on various quantitative indicators such as VaR, risk exposure and risk sensitivity;
- setting suitable market risk limits for different business operations which bear market risk, such as VaR limits, risk exposure limits and duration limits, and monitoring risks to ensure compliance with the Group's risk preferences and risk tolerance;
- carrying out diversified asset allocation and investment strategies, and actively adopting various derivative instruments for hedging risks;
- establishing multi-level risk monitoring mechanisms; adopting systematic methodology to monitor risks and timely prohibiting transactions when any unusual situation happens;
- establishing risk reporting mechanisms to periodically inform the Group's managers of potential changes in risk factors and the total risk level of the Group; and
- setting up emergency mechanisms to prevent the Group from further losses due to unexpected market shock or decision-making failures and conducting stress tests to evaluate potential losses under extreme circumstances.

Credit Risk

Credit risk refers to the risk resulting from the failure of a debtor or counterparty to perform its contractual obligations on time. The Group's credit risk mainly exists in its fixed-income investment, financing business and OTC derivative transactions.

To manage credit risk, the Group has taken the following measures:

- establishing internal credit rating system and business approval procedures to limit or prohibit investments in bonds with low ratings and keeping track of issuers' operating conditions and credit rating changes;

RISK MANAGEMENT

- conducting sufficient due diligence on financing customers and implementing strict risk management standards on pledge ratio, collaterals, concentration, liquidity, duration, etc.; enforcing strict credit assessment and approval procedure, continuously monitoring credit risk exposure through timely mark-to-market and enforcing liquidation, judicial recourse or other means when a customer defaults;
- continuously monitoring the aggregate credit risk through risk indicator systems such as business scale limit, concentration ratio, collateral coverage ratio, risk weighted asset, expected loss, unexpected loss, etc.;
- implementing control on counterparty credit exposure, setting a unified credit limit for each counterparty in the Group, and ensuring the overall credit exposure to a certain counterparty within the credit limit;
- analysing the credibility and risk tolerance of its clients before determining the credit ratings and credit limits of its clients; establishing the criteria for discreditable behaviour information systems, recording clients' bad credit behaviours and ceasing any further dealings with discreditable clients; and
- establishing a credit risk disposal process covering bond investments, financing business, OTC derivative transactions, etc., and implementing centralised and effective management of risky credit assets.

Liquidity Risk

Liquidity risk relates to the risk that securities firms may not be able to obtain timely funding at reasonable cost, to repay due debts, fulfil other payment obligations or satisfy the funding needs for normal business operation. The Group has sufficient liquidity reserves. The Group's liquidity coverage ratio and net stable funding ratio satisfy the supervision requirements and manifest sufficient safety levels.

In order to prevent liquidity risk, the Group has adopted the following methods:

- continuously monitoring the overall liquidity risk through risk indicator systems such as liquidity coverage ratio and net stable funding ratio;
- monitoring the Company's and departments' cash flow gaps to ensure liquidity security;
- establishing liquidity assets reserves and maintaining sufficient qualified liquid assets to ensure that the Group can meet its liquidity needs under pressure in a timely manner;
- assessing the Group's cash flow, liquidity coverage, net stable funding ratio under various liquidity scenarios, analysing the Group's liquidity risk tolerance and improving the Group's capabilities to manage risks;
- making, exercising and evaluating liquidity risk contingency plans and increasing the Group's emergency capacity to respond to liquidity risks;
- using IT systems to monitor liquidity indicators on a daily basis; based on the liquidity indicators, allocating its available funds properly and resorting to the use of financing instruments to replenish its liquidity when needed; and
- improving the liquidity risk reporting system to ensure that the Company's management team is able to immediately understand the liquidity risk and take corresponding measures.

RISK MANAGEMENT

Operational Risk

Operational risk refers to the risk of direct or indirect financial loss resulting from the incomplete or problematic internal operation procedures, and personnel, systems or external events.

In order to manage operational risk, the Group has taken the following measures:

- establishing an operational risk management system which serves to implement risk control, allow self-evaluation, monitor key risk indicators, and establish an efficient risk reporting mechanism to collect and analyse operational loss data;
- establishing a technical safeguard system and improving its real-time monitoring system, ensuring risk prevention and prudent operation, and prioritising internal control in various operational management activities, especially those related to new branches or new businesses or products, and formulating and improving relevant policies;
- enhancing review and audit processes and imposing penalties for breaching internal policies;
- emphasising employee training to increase employees' compliance awareness and risk management capabilities; and
- increasing the publicity of the operational risk management culture in subsidiaries and promoting subsidiaries to build up a sound internal operational risk management structure.

Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, self-regulatory discipline penalties and monetary loss, or damage to reputation as a result of business activities or employee conduct violating laws, regulations or rules.

In order to manage compliance risk, the Group places an emphasis on cultivating a corporate culture of operating in compliance with laws and regulations, and it has also established an effective and fitting compliance management system as follows:

- establishing a sound compliance management organisation structure which the Group adjusts according to changes in the market environment, regulatory requirements and business development needs; this also allows the Group to enhance the performance capabilities and performance guarantee of compliance management personnel;
- establishing a set of compliance management systems taking into account management and operational practices, and continuously refining and improving various compliance management rules to adapt to changes in regulatory requirements;
- examining, monitoring and reviewing the compliance of business operations, and its staff's behavioural practices as well as implementing various compliance management mechanisms such as compliance consultation, training, examining, inspection, monitoring and reporting;
- increasing the regular compliance inspection and timely pointing out relevant issues and problems and proposing regulatory suggestions;
- conducting culture publicity to increase employees' awareness of self-regulation and building up a disciplined environment; and

RISK MANAGEMENT

- in line with the principles of effective management of conflicts of interest and money laundering risks, ensuring that appropriate Chinese Walls are put in place and focusing on anti-money laundering.

Information Technology Risk

Information technology risk mainly refers to the risk due to abnormal operation of a Group's information system or data damage or leakage caused by various internal and external reasons, making information systems unable to continuously facilitate stable, efficient and safe transactions and business management in aspects of business realisation, response speed, handling capacity, data encryption, etc., thus causing certain losses to the Group.

As below, the Group has adopted quite a few methods to control the information technology risks:

- continuously improving information technology governance and ensuring capital and human resource investment to meet the requirements for availability, security and compliance of information technology resources; periodically evaluating and updating information technology planning and establishing mechanisms to identify, assess, monitor, eliminate and report risks;
- improving independent control and research and development capability in the core systems to prevent systematic risks; standardising the research and development process; incorporating information system development into life-cycle management; establishing a robust information security system and forming a leading security capability; strengthening outsourcing management by establishing an assessment mechanism in order to prevent supplier failure, staff loss, information leaks, and other risks;
- constructing a multi-level information technology operation and management mechanism which is process-driven, data-driven, specialised, standardised, automated, intelligent and efficient; continuing the usage of a multi-level monitoring system to increase the capabilities and efficiencies in forecasting risks and troubleshooting; continuing the construction of an automated operation and maintenance platform to improve efficiency and to reduce man-made errors;
- strengthening system support to eliminate and reduce the impact of one single minor problem to an entire system; optimising the testing system and enriching testing methods; improving the quality of launched systems and reducing system operational risk; and
- constructing quality-management systems for information system operations, building life-cycle management for relevant events and problems; improving the quality of the delivered system, and guaranteeing its operation with maintenance support.

Reputational Risk

Reputational risk refers to exposure to negative remarks from media regarding the Group's operation, management and other conducts or external events.

In order to effectively control reputational risk, the Group has taken the following measures:

- standardising the system and process for dealing with reputational risk events and strengthening internal publicity and guidance to better cope with reputational risks;

RISK MANAGEMENT

- establishing a public opinion monitoring system to monitor and forecast events that bare reputational risks; and
- building up a smooth channel to communicate with the media, and maintaining the Group's reputation through effective media communications.

Conflicts of Interest

Conflicts of interest may arise among: (i) various operating units; (ii) clients and the Company; (iii) clients; (iv) employees and the Company; or (v) clients and employees.

In order to prevent conflicts of interest, the Company has adopted the following specific measures:

- research personnel are prohibited from providing false or misleading information;
- investment analysis, forecasts or recommendations provided to the public, different clients and various departments regarding the same issue and at the same time shall not contain contradictory views; and
- information briefs, news updates and information systems which are only intended for internal use shall not be disclosed to the public by any method.

One of the fundamental objectives of Chinese Walls is to manage conflicts of interest. The Company has adopted a series of measures and methods to manage conflicts of interest. It primarily adopts measures of information segregation to avoid conflicts of interest. In the event that there are still conflicts of interest, notwithstanding Chinese Walls, such conflicts of interest must be disclosed. If such conflicts of interest cannot be managed effectively through disclosure, the Company may adopt measures such as imposing restrictions on business activities. In the event that it imposes restrictions on business activities, the Company endeavours to prioritise its clients' interests and to treat all clients fairly. Until now, the Company has not experienced any material failure to protect confidential information from, or related to, its clients.

Chinese Wall

A Chinese Wall is a barrier to protect sensitive information from being transmitted among, or being used by, businesses with conflicts of interest, and includes a series of measures to avoid the occurrence of conflicts of interest between the Company and clients as well as among different clients and businesses.

As a securities firm with a diversified range of businesses and products, the Company will inevitably confront two or more types of conflicts of interest. In order to protect the interests of its clients and to maintain its good reputation, it has established Chinese Walls in different business lines to prevent and minimise potential conflicts of interest by controlling the flow of sensitive information and establishing applicable rules and policies on information segregation. Specifically, it has implemented the following measures:

- Departments with conflicts of interest, such as investment banking, investment and trading, asset management and research departments are physically segregated and use separate computers, facsimile machines, printers and other office equipment. It has adopted a strict access management system by installing access control for key places such as business departments and trading rooms with sensitive information.

RISK MANAGEMENT

- It has established a restricted list system. If the Company obtains sensitive information regarding certain securities, or establishes a business connection in relation to such securities (such as providing equity or debt underwriting or financial advisory services to corporate clients), it will take restrictive measures to prevent conflicts of interest. In particular, it would put such securities and relevant information on the restricted list, and impose restrictions on related businesses, such as investment in, trading of, and research reporting on, such securities in accordance with relevant laws and regulations.
- Funds and securities accounts associated with its investment and trading, asset management, and other businesses with conflicts of interest are separately handled, independently set up, strictly segregated and independently managed, and funds and securities in separate accounts cannot be mixed or transferred from one to another.
- The IT systems for different businesses with conflicts of interest are mutually independent or logically separated.

The Company believes that its information segregation system and Chinese Wall mechanism have been effective in preventing insider-trading and managing conflicts of interest during the Track Record Period.

Segregation of Duties

To prevent collusion and improper trading, the Company has clearly defined the duties of employees of various business departments. No employee may work concurrently on two or more securities businesses with conflicts of interest, or perform duties that may lead to conflicts of interest, or work concurrently in two or more departments or subsidiaries with conflicts of interest.

Employees are not allowed to work concurrently in the IT Department, Capital Operation Department or departments with supervision and inspection functions. Personnel working in the settlement and custody department are not allowed to concurrently work in its IT Department or trading departments.

Anti-Money Laundering

The Group has incorporated anti-money laundering procedures into its internal control system and daily operation in strict compliance with the PRC laws and regulations on anti-money laundering as well as the relevant requirements of the PBOC and the CSRC. It complies with the “know-your-client” principles and implements client identification and continuous review of client identification. In addition, the Group has carried out different due diligence investigations and other risk control measures for different clients based on their risk classifications, and has performed the duties of monitoring and reporting suspicious transactions according to the requirements.

The Group has properly maintained the identity information and transaction records of its clients. In accordance with confidentiality requirements, it has provided an anti-money laundering training programme for employees, and strengthened the understanding of its clients on anti-money laundering. The Group also actively cooperates with the PBOC in various anti-money laundering actions such as on-site inspection and off-site supervision.

MANAGEMENT AND CORPORATE GOVERNANCE

Overview

The Company is principally governed by the general meeting, the Board of Directors, the Supervisory Committee and senior management. The current Articles of Association and its recent amendments were successively considered and approved at the annual general meeting for the year of 2016 in June 2017, the first extraordinary general meeting for the year of 2017 in December 2017, the annual general meeting for the year of 2017 in June 2018 and the first extraordinary general meeting for the year of 2018 in October 2018.

A brief description of the general meeting, the Board of Directors, the Supervisory Committee and senior management of the Company is set out below.

General Meeting

The general meeting is the organ of authority of the Company. The general meetings are divided into annual general meetings and extraordinary general meetings. An annual general meeting shall be called once a year, within six months following the end of the previous fiscal year. An extraordinary general meeting shall be called, within two months from the date of the occurrence of any of the following circumstances:

- the number of Directors is less than the minimum number specified in the PRC Company Law, or less than two thirds of the number specified in the Articles of Association;
- the losses of the Company that have not been made up reach one third of its total paid in share capital;
- shareholders that hold, individually or collectively, more than 10% of the shares in the Company request to hold such meeting (the number of shares held shall be calculated according to the number of shares held as at the date of the submission of the written request);
- the Board of Directors considers it necessary;
- the Supervisory Committee proposes to hold such a meeting; or
- other circumstances under relevant laws, administrative regulations, departmental rules or the Articles of Association.

The general meeting shall have the following functions and powers in accordance with law:

- to decide on the business policies and investment plans of the Company;
- to elect and replace a Director or Supervisor who is not an employee representative, and decide on the amount and payment method of to his or her remuneration;
- to consider and approve the report of the Board;
- to consider and approve the report of the Supervisory Committee;
- to consider and approve the annual financial budgets and the final accounting plans of the Company;
- to consider and approve the profit distribution plans and the plans for making up losses of the Company;
- to pass resolutions on any increase or decrease of the Company's registered capital;
- to pass resolutions on the issue of corporate bonds;

MANAGEMENT AND CORPORATE GOVERNANCE

- to pass resolutions on the merger, division, dissolution, liquidation, or change in corporate form of the Company;
- to amend the Articles of Association;
- to pass resolutions on the engagement and dismissal of any accounting firm by the Company;
- to consider and approve matters relating to guarantees under Article 69 of the Articles of Association;
- to consider and approve matters relating to the purchase and/or sale by the Company within one year of material assets valued at more than 30% of the Company's audited total asset of the Company as at the most recent period;
- to consider and approve any change in the use of offer proceeds;
- to consider and approve any share incentive scheme;
- to consider and approve any proposal by the shareholders that hold, individually or collectively, 3% or more of shares with the voting rights in the Company;
- to listen to specific explanations, made by the Board and the Supervisory Committee, on the performance appraisal and remunerations of the Directors and Supervisors;
- to listen to the specific explanations, made by the Board, on the implementation of duties, performance appraisal and remunerations of the senior management officers; and
- to examine and approve other matters as required by laws, administrative regulations, departmental rules, listing rules of the stock exchange where the shares of the Company are listed or the Articles of Association to be approved at a general meeting.

The functions and powers of the general meeting mentioned above shall not be delegated through authorisation to the Board of Directors or any other body or individual.

Board of Directors

The Board of Directors is responsible for the general management of the Company and is accountable to the general meeting.

The Board of Directors has the following functions and powers:

- to convene general meetings and report to general meetings;
- to implement resolutions of general meetings;
- to resolve on the Company's business plans and investment plans;
- to prepare the annual financial budgets and final accounting plans of the Company;
- to prepare the profit distribution plan and loss makeup plan of the Company;
- to formulate proposals for the Company in respect of increase or reduction of registered capital, issue of bonds or other securities and the listing thereof;
- to formulate plans for material acquisitions, purchase of shares of the Company, merger, division, dissolution or transformation of the Company;

MANAGEMENT AND CORPORATE GOVERNANCE

- to determine, within the authority granted by the general meeting, such matters as external investments, acquisitions and disposals of assets, asset mortgages, external guarantees, consigned financial management and connected transactions, etc.;
- to decide on the establishment of internal management organisations of the Company;
- to appoint or dismiss the president and secretary to the Board of Directors of the Company; to appoint or dismiss senior management officers including vice president(s) and the person in charge of finance and the Chief Compliance Officer of the Company in accordance with the nominations or the president, and to determine their remuneration, rewards and penalties;
- to set up the basic management system of the Company;
- to formulate the proposals for any amendment to the Articles of Association;
- to manage information disclosure of the Company;
- to propose to the general meeting the appointment or replacement of the accounting firms which provide audit services to the Company;
- to listen to work reports of the president and review his or her work;
- to formulate risk control system;
- to determine the compliance management objectives of the Company, and assume responsibility for the effectiveness of compliance management, including but not limited to, to consider and approve the fundamental system of compliance management and the annual compliance reports, to evaluate the effectiveness of compliance management, to supervise the resolution of problems existing in compliance management and to establish the mechanism for direct communication with the Chief Compliance Officer to ensure assessment by the Chief Compliance Officer on senior management officers, each department, branch and subsidiary of each level, compliance department and compliance management personnel;
- to determine the Directors' remuneration and distribution plan thereof; and
- to exercise other functions and powers as stipulated by laws, administrative regulations, departmental rules or the Articles of Association.

The Company's Board of Directors currently consists of 12 Directors, comprising two executive Directors, five non-executive Directors and five independent non-executive Directors. The Directors are elected or replaced at the general meetings. A Director serves a term of three years and may seek re-election upon expiry of the said term. An independent non-executive Director shall not hold office for a period over six years.

MANAGEMENT AND CORPORATE GOVERNANCE

As at the date of this Prospectus, the membership of the Board of Directors of the Company is as set out below.

Name	Age	Current positions	Since
Zhou Yi	50	Chairman of the Board of Directors	2016
		Executive Director	2007
Ding Feng	50	Non-executive Director	2018
Chen Yongbing	45	Non-executive Director	2018
Xu Qing	46	Non-executive Director	2016
Hu Xiao	39	Non-executive Director	2018
Fan Chunyan	43	Non-executive Director	2018
Zhu Xuebo	56	Executive Director	2018
Chen Chuanming	61	Independent non-executive Director	2016
Liu Hongzhong	53	Independent non-executive Director	2013
Lee Chi Ming	66	Independent non-executive Director	2015
Liu Yan	46	Independent non-executive Director	2016
Chen Zhibin	54	Independent non-executive Director	2018

The biographies of the members of the Board of Directors of the Company, as at the date of this Prospectus, are set out below. The business address of the members of the Board of Directors is the registered address of the Company: No.228 Jiangdong Middle Road, Nanjing, Jiangsu Province, 210019, PRC.

Mr. Zhou Yi is the Chairman of the Board of Directors, an executive Director and president of the Company. He holds a bachelor's degree in computer communications. Mr. Zhou once taught at Jiangsu Posts & Telecommunications School; was engaged in technology management at the Telecommunications Center of Jiangsu Posts & Telecommunications Bureau and administrative management at Jiangsu Mobile Communication Co., Ltd.; served as the chairman of the board of directors of Jiangsu Beier Co., Ltd. and Nanjing Xinwang Tech Co., Ltd., as deputy general manager of Shanghai Beier Fortune Communications Company, as president of Huatai Securities Limited Liability Company from February 2007 to December 2007 and as director of the same company from September 2007 to December 2007. Mr. Zhou served as the director, president and deputy party secretary of the Company from December 2007 to September 2011, Director and president of the Company from September 2011 to June 2016, and has been chairman of the Board of Directors and president of the Company since June 2016, with a term of office in this session of the Board as the chairman and president of the Company from December 2016 to December 2019. Mr. Zhou was also the party secretary of the Company from September 2011 to March 2019.

Mr. Ding Feng is a non-executive Director of the Company. He holds a master's degree in business administration and is a senior accountant. He served as assistant accountant of the finance department of China Songhai Industrial Corporation in Xiamen Special Economic Zone from August 1990 to November 1992; chief accountant of the finance department of China North Industries Xiamen Corporation from December 1992 to September 1995; deputy section chief of the finance department of Jiangsu International Trust Investment Company from October 1995 to August 2002; deputy project manager of the finance department of Jiangsu Guoxin Investment Group Limited ("**Guoxin Investment Group**") from August 2002 to September 2004; head of the finance department (manager assistant) and deputy general manager of Jiangsu International Trust Corporation Limited from September 2004 to December 2009; deputy general manager of the finance department of Guoxin Investment Group from December 2009 to December 2010; vice president of Jiangsu Guoxin Group Finance Co., Ltd. from December 2010 to December 2011; president and deputy secretary of the Party Committee of Jiangsu Guoxin Group Finance Co., Ltd. from January 2012 to March 2018; and has

MANAGEMENT AND CORPORATE GOVERNANCE

served as the general manager of the finance department of Guoxin Investment Group since March 2018. He has been a director of the Company since October 2018 with a term of office in this session of the Board from December 2016 to December 2019.

Mr. Chen Yongbing is a non-executive Director of the Company. He holds a bachelor's degree in economic management. He served as clerk and staff member of the enterprise division of State-owned Assets Administration Bureau of Jiangsu Provincial Government (江苏省国有资产管理局) from August 1996 to November 2000; a staff member of the Administrative Office of State-owned Assets of the Department of Finance of Jiangsu Province from November 2000 to January 2002; senior staff member of the Administrative Office of State-owned Assets of the Department of Finance of Jiangsu Province from January 2002 to March 2004; cadre at sub-section level of Jiangsu SASAC from March 2004 to June 2004; senior staff member of the Division of Enterprise Reform and Development of Jiangsu SASAC from June 2004 to January 2005; principal staff member of the Division of Enterprise Reform and Development of Jiangsu SASAC from January 2005 to December 2009; principal staff member of the Division of Enterprise Development and Reform of Jiangsu SASAC from December 2009 to May 2014; deputy director of the Division of Enterprise Development and Reform of Jiangsu SASAC from May 2014 to October 2016; deputy head of the investment and development department of Jiangsu Communications Holding Co., Ltd. from October 2016 to January 2018; and has served as head of the investment and development department of Jiangsu Communications Holding Co., Ltd. since January 2018. He has been a director of the Company since October 2018 with a term of office in this session of the Board from December 2016 to December 2019.

Mr. Xu Qing is a non-executive Director of the Company. He holds a master's degree in business administration and is an economist. Mr. Xu served as a technician and assistant engineer of Jiangsu Communications Cable Plant from August 1993 to November 1998; successively worked as the deputy department chief of the securities investment department, deputy director of the president's office, assistant to the general manager of the business department and executive director of Jiangsu Hiteker High-tech Co., Ltd. from November 1998 to February 2006; and has successively served as secretary to the board, the director of the group office, director of the Party Committee office, assistant to the president, general manager of the legal affairs department, general counsel, general manager of the investment and management department and vice president of Govtor Capital Group Co., Ltd. since February 2006. He has served as a director of the Company since June 2016 with a term of office in this session of the Board from December 2016 to December 2019.

Ms. Hu Xiao is a non-executive Director of the Company. She holds a master's degree in business administration. Ms. Hu served as an accountant of KPMG Huazhen LLP from September 2002 to July 2003; an assistant analyst of the stock research department of China International Capital Corporation Limited from July 2003 to July 2006; manager and then vice president of Citigroup Global Markets Asia Limited from July 2008 to July 2012; vice president and then a director of Merrill Lynch (Asia Pacific) Limited from July 2012 to March 2017; and has served as director of the strategic investment department of Alibaba Group since March 2017. She has been a director of the Company since October 2018 with a term of office in this session of the Board from December 2016 to December 2019.

Ms. Fan Chunyan is a non-executive Director of the Company. She holds a college degree in financial accounting. Ms. Fan served as the director assistant of the settlement centre of the headquarters of Suning.com Group Co., Ltd. from February 2002 to February 2004; deputy general manager and financial director for the Guangzhou region of Suning.com Group Co., Ltd. from

MANAGEMENT AND CORPORATE GOVERNANCE

February 2004 to August 2011; executive deputy general manager for the Guangzhou Region and assistant to the executive president of the regional headquarters of South China of Suning.com Group Co., Ltd. from August 2011 to January 2013; executive vice president of the e-commerce operation headquarters and executive vice president of the operation headquarters of Suning.com Group Co., Ltd. from January 2013 to September 2014; vice president of Suning Retail Group and president of Internet Platform Company from August 2016 to January 2018; and has served as vice president of Suning Retail Group and president of Internet Platform Company as well as general manager of the customer service management centre and deputy general manager of Jiwu Company since January 2018. She has been a director of the Company since October 2018 with a term of office in this session of the Board from December 2016 to December 2019.

Mr. Zhu Xuebo is an executive Director of the Company. He holds a bachelor's degree in monetary banking. Mr. Zhu worked at Nanjing Artillery Academy and the Nanjing Branch of the People's Bank of China. He joined the Company in March 2001 and successively served as general manager of the human resources department, head of the organisation department of the Party Committee and assistant to the president, etc.; and has served as the deputy secretary of the Party Committee of the Company since March 2013. He has been a director of the Company since October 2018 with a term of office in this session of the Board from December 2016 to December 2019.

Mr. Chen Chuanming is an independent non-executive Director of the Company. He holds a doctor's degree in business management and is a professor. In 1978, Mr. Chen was selected by the Ministry of Education of China to study social and economic management at the University of Brittany in France. He was assigned to work at the Institute of World Economics and Politics of Chinese Academy of Social Sciences after returning to China in 1981. He has been teaching at Nanjing University since December 1982, during which he studied for a doctoral degree in economics at the School of Economics of Nankai University from September 1990 to June 1993. Currently, he serves as a professor of Nanjing University Business School, and concurrently as the vice chairman of Chinese Institute of Business Administration and Jiangsu Association of Science and Technology Innovation. He has served as an independent non-executive director of the Company since March 2016 with a term of office in this session of the Board from December 2016 to December 2019.

Mr. Liu Hongzhong is an independent non-executive Director of the Company. He holds a doctor's degree in finance. Mr. Liu once worked as a lecturer, an associate professor and the dean of the Department of World Economics and the Department of International Finance at Fudan University, and has been the professor of the Department of International Finance at Fudan University since May 1999. He has been an independent non-executive director of the Company since November 2013 with a term of office in this session of the Board from December 2016 to December 2019.

Mr. Lee Chi Ming is an independent non-executive Director of the Company. He holds a master's degree in business administration. Mr. Lee served as an assistant assessor and then assessor of the Inland Revenue Department of the Government of Hong Kong from October 1976 to November 1989; the senior manager/director of the Licensing Department, director of Corporate Planning, and director of Finance and Administration of the Securities and Futures Commission of Hong Kong from July 1989 to July 2014. He has been the chief partner of Benington Capital Management Limited since October 2014, and an independent non-executive director of the Company since April 2015 with a term of office in this session of the Board from December 2016 to December 2019.

MANAGEMENT AND CORPORATE GOVERNANCE

Ms. Liu Yan is an independent non-executive Director of the Company. She holds a master's degree in comparative law, with qualification as a lawyer both in China and the United States (New York State). Ms. Liu joined Beijing Tian Yuan Law Firm in 1995 and has been a partner of Tian Yuan Law Firm since 2002. She has been an independent non-executive director of the Company since December 2016 with a term of office in this session of the Board from December 2016 to December 2019.

Mr. Chen Zhibin is an independent non-executive Director of the Company. He holds a doctor's degree in business management and is a professor and doctoral student supervisor of the Faculty of Finance and Accounting at Southeast University. Mr. Chen also serves as a managerial accounting consultant to the Ministry of Finance and the vice director of the governmental accounting committee of the Accounting Society of China. He has been an independent non-executive director of the Company since June 2018 with a term of office in this session of the Board from December 2016 to December 2019.

Supervisory Committee

The Supervisory Committee is responsible for overseeing the Company's general management and shall be accountable to the general meeting.

The Supervisory Committee has the following functions and powers:

- to review the periodic reports of the Company prepared by the Board and submit written review opinions thereon;
- to check the financial condition of the Company;
- to monitor the Directors and senior management officers in the discharge of their duties and their performance of compliance management duties, and propose dismissal of Directors and senior management officers who have violated laws, administrative regulations, the Articles of Association or the resolutions of the general meetings and assume the primary or leadership responsibility for the occurrence of major compliance risks;
- to require Directors and senior management officers to correct their actions which are harmful to the interests of the Company;
- to propose the convening of extraordinary general meetings, and convene and preside over the general meetings, if the Board fails to perform the obligations to convene and preside over the general meetings in accordance with the PRC Company Law;
- to propose matters to a general meeting;
- to formulate the amount of the remuneration of the Company's Supervisors and the proposal for the method of distributing such remuneration;
- to bring an action of law against Directors and senior management officers according to the provisions of the PRC Company Law;
- to check the financial report, the operational report and the profit distribution plan that the Board proposes to submit to the general, and in case of any doubt or any operational abnormality of the Company, start an investigation and if necessary, employ an accounting

MANAGEMENT AND CORPORATE GOVERNANCE

firm, law firm or other professional institution to assist in his or her work at the expense of the Company.

The Company's Supervisory Committee currently consists of seven Supervisors, including the chairman of the Supervisory Committee. The Supervisors include three employee representative Supervisors and four shareholder representative Supervisors. The term of office of each Supervisor shall be three years per session. Upon expiry of the term, the Supervisor may be re-appointed upon re-election. The shareholder representative Supervisors and independent Supervisors shall be elected and removed by the general meeting. The employee representatives on the Supervisory Committee shall be elected democratically by the general meeting of employee representatives, the general meeting of employees or in other ways.

As at the date of this Prospectus, the membership of the Supervisory Committee of the Company is as set out below.

Name	Age	Current positions	Since
Yu Yimin	50	Chairman of the Supervisory Committee Shareholder Supervisor	2008
Chen Ning	45	Shareholder Supervisor	2018
Yu Lanying	48	Shareholder Supervisor	2018
Yang Yaling	37	Shareholder Supervisor	2018
Meng Qinglin	50	Employee Representative Supervisor	2016
Gu Chengzhong	53	Employee Representative Supervisor	2019
Zhai Jun	44	Employee Representative Supervisor	2019

The biographies of the members of the Supervisory Committee of the Company, as at the date of this Prospectus, are set out below. The business address of the members of the Supervisory Committee is the registered address of the Company: No.228 Jiangdong Middle Road, Nanjing, Jiangsu Province, 210019, PRC.

Mr. Yu Yimin holds a master's degree in economics and public administration and is a senior international business engineer. Mr. Yu served as a staff at the planning department of Nanjing Pharmaceutical Company from August 1990 to November 1994; successively as staff of the research and development department, business executive of the economic and securities analysis and research centre, and deputy general manager of the debt management department at the headquarters of investment bank at Jiangsu Securities Co., Ltd. from November 1994 to August 1999; and successively as general manager of the entrusted asset management department and the fixed income department of Huatai Securities Limited Liability Company from August 1999 to September 2004. Mr. Yu has been the vice president of Jiangsu SOHO Holdings Group Co., Ltd. (named Jiangsu Silk Group Co., Ltd. before August 2011) from September 2004 to 21 December 2017; full-time external director of Jiangsu Provincial state-owned enterprises since 21 December 2017; supervisor of Huatai Securities Limited Liability Company from September 2007 to December 2007; supervisor of the Company from December 2007 to February 2008; and chairman of the Supervisory Committee of the Company since February 2008, with a term of office in this session of the Supervisory Committee from December 2016 to December 2019.

Mr. Chen Ning holds a bachelor's degree in accounting and is a senior accountant. Mr. Chen worked at the steam workshop of Yangzi Petrochemical Refinery from July 1994 to February 1996; successively served as the accountant of the finance section of Yangzi Petrochemical Refinery from

MANAGEMENT AND CORPORATE GOVERNANCE

February 1996 to February 2003, accountant of the cost section, deputy section chief, deputy chief accountant of the finance department, deputy department chief of the technology development and information management department and deputy director of ERP Support Center of Yangzi Petrochemical Co., Ltd. from February 2003 to October 2012, deputy department chief of the finance department of Yangzi Petrochemical Ltd. and department chief of the finance department of Yangzi Petrochemical Co. Ltd. (Nanjing) from October 2012 to June 2015. He was the deputy general manager of the IT department of Guoxin Investment Group from June 2015 to December 2015, has been general manager of the IT department of Guoxin Investment Group since December 2015 and has concurrently been general manager of the finance department since December 2016. He served as the director of the Company from June 2016 to October 2018 and has been a supervisor of the Company since October 2018, with a term of office in this session of the Supervisory Committee from December 2016 to December 2019.

Ms. Yu Lanying holds a master's degree in industrial economics and is a principal senior accountant. Ms. Yu worked at the finance department of Nanjing Runtai Industrial Trading Company from August 1993 to August 1996; pursued graduate studies in industrial economics at Nanjing University of Science and Technology from September 1996 to April 1999; worked at the finance and audit department of Jiangsu United Trust and Investment Company from May 1999 to January 2003; worked at the finance and audit division of Jiangsu Communications Industrial Group Co., Ltd. from January 2003 to October 2004; worked at the finance and audit department of Jiangsu Communications Holding Co., Ltd. from October 2004 to May 2008; successively served as deputy manager (presiding) of the finance and accounting department, manager of the finance and accounting department, deputy financial director (department level), financial director, and member of the Party Committee of Jiangsu Expressway Company Limited from June 2008 to November 2016; served as deputy general manager, financial director and member of the Party Committee of Jiangsu Expressway Company Limited from November 2016 to April 2018; and has served as the chief of the audit and risk control department of Jiangsu Communications Holding Co., Ltd. since April 2018. Ms. Yu has been a supervisor of the Company since October 2018 with a term of office in this session of the Supervisory Committee from December 2016 to December 2019.

Ms. Yang Yaling holds a master's degree in accounting and is a certified public accountant, senior accountant and certified international internal auditor. Ms. Yang served as financial accountant and accountant at Taizhou Branch of China Unicom from December 2003 to July 2007; full-time supervisor of the Jiangsu SASAC from August 2007 to August 2015; deputy general manager and then general manager of the audit department of Govtor Capital Group from August 2015 to March 2018. She has served as general manager of the investment and management department of Govtor Capital Group Co., Ltd. since March 2017, and general manager of the legal department of Govtor Capital Group Co., Ltd. since March 2018. Ms. Yang has been a supervisor of the Company since October 2018 with a term of office in this session of the Supervisory Committee from December 2016 to December 2019.

Mr. Meng Qinglin holds a bachelor's degree in industrial economics and is an economist. Mr. Meng was once an employee of Xuzhou Construction Machinery Group. He successively served as assistant to the general manager, deputy general manager and general manager of sales department of the Company. He was the general manager of the Company's institutional service department from April 2011 to April 2012; the general manager of the Company's Shanghai Branch from April 2012 to April 2016; the general manager of the Company's brokerage business head office from April 2016 to August 2017; and has been the general manager of the Company's brokerage and wealth management

MANAGEMENT AND CORPORATE GOVERNANCE

department since April 2019. He has been a supervisor of the Company since December 2016 with a term of office in this session of the Supervisory Committee from December 2016 to December 2019.

Mr. Gu Chengzhong holds a master's degree. Mr. Gu worked in the Nanjing Public Security Bureau from July 1990 to May 1998; successively worked in the technical supervision office, head office of brokerage management and Nanjing Hanzhong Road securities sales department of the Company from May 1998 to November 2005; and successively worked as a deputy general manager (in charge of daily operation) and general manager of Xi'an North Wenyi Road securities sales department, general manager of Xi'an regional centre securities sales department, general manager of Nanjing Ruijin Road securities sales department and general manager of Nanjing Branch of the Company from November 2005 to January 2019. Since January 2019, Mr. Gu has been general manager of the compliance and legal affairs department of the Company.

Mr. Zhai Jun holds a bachelor's degree. Mr. Zhai worked in Jiangsu International Trust and Investment Co., Ltd. from August 1994 to July 2002; successively served as the general manager of Nanjing Xuanwumen securities sales department, a deputy manager of the securities investment department and a deputy manager of the brokerage business department of Xintai Securities Co., Ltd. from July 2002 to August 2009; and successively served as a deputy general manager of the head office of retail customer service, a deputy general manager of the head office of brokerage business, general manager of Zhejiang branch and general manager of Shanghai branch of the Company from August 2009 to March 2019. Since March 2019, he has been director of the administration office of the Company.

Senior Management

As at the date of this Prospectus, the senior management, by function, of the Company is as set out below to the extent that they are not members of the Board of Directors.

Name	Age	Current positions	Since
Zhou Yi	50	President	2007
Ma Zhaoming	55	Vice President	2013
Sun Hanlin	53	Vice President	2007
Wu Zufang	55	Vice President	2007
Jiang Jian	52	Vice President	2007
Shu Ben'e	54	Chief Financial Officer	2012
Li Yun	46	Chief Compliance Officer	2012
		General Legal Counsel	2016
Zhang Hui	44	Secretary to the Board of Directors	2017
Wang Chong	46	Chief Risk Officer	2017

The biographies of the senior management officers of the Company, as at the date of this Prospectus, are set out below. The business address of the senior management officers is the registered address of the Company: No.228 Jiangdong Middle Road, Nanjing, Jiangsu Province, 210019, PRC.

Mr. ZHOU Yi is the president of the Company. See “—*Board of Directors*” for Mr. Zhou Yi's biography.

Mr. Ma Zhaoming is a vice president of the Company. Mr. Ma holds a bachelor's degree in industrial finance and accounting and is a senior accountant. He was once an accountant of No. 898 Factory of the Ministry of Electronics Industry, the deputy chief and then chief of the finance section

MANAGEMENT AND CORPORATE GOVERNANCE

of its ceramics branch. He worked at Jiangsu Securities Company as the deputy manager of the planning and finance department and the director of the planning and finance division, then the director of the planning and finance division and the head of inspection office, and later the deputy chief accountant and the director of the planning and finance division and vice president. He served as the vice president and the party committee member of Huatai Securities Limited Liability Company, the chairman of Huatai United Securities Co., Ltd. He has been the vice president and the party committee member of the Company since June 2013 with the current term of office from December 2016 to December 2019.

Mr. Sun Hanlin is a vice president of the Company. Mr. Sun holds a master's degree in business administration. Mr. Sun once worked as the clerk, officer and deputy chief of the cadre section of human resources division of the Jiangsu Branch of PBOC, the executive deputy chief and the chief of the human resources division of Jiangsu Securities Company, the chief of the human resources division, chief of the organization department, general manager of the human resources department, secretary of the discipline inspection commission, chief inspection officer, member of the party committee and vice president of Huatai Securities Limited Liability Company. He was the vice president, secretary of the discipline inspection commission and member of the party committee of the Company from December 2007 to December 2015. He has been the vice-president and member of the party committee of the Company since December 2015 with current term of office from December 2016 to December 2019.

Mr. Wu Zufang is a vice president of the Company. Mr. Wu holds a master's degree in business administration. Mr. Wu used to work as a teacher in the mathematics department at Nanjing University, a staff member of the Policy Research Office of Jiangsu Commission of Planning and Economics, the business supervisor, head of issuance and transaction department, deputy general manager and general manager of the stock affair department, the deputy general manager, general manager and then chairman and general manager of the subsidiary, the assistant to the president, the chief inspection officer of asset management business and general manager of asset management at the head office, and the chief economist, vice president and party committee member of the Company. He has been the vice president and party committee member of the Company since December 2007 with the current term of office from December 2016 to December 2019.

Mr. Jiang Jian is a vice president of the Company. Mr. Jiang holds a master's degree in economics and management. Mr. Jiang once taught at Nanjing Agricultural University. He worked at Jiangsu Securities Company as the employee and chief of the training and education section of the Human Resources division, deputy general manager of the stock affairs department under the investment banking head office, deputy general manager and senior manager of the investment banking No. 1 department, deputy general manager of the investment banking head office (concurrently acting as the manager of the issuance department), general manager of the asset management head office, general manager of the Nanjing investment banking business department, director of the investment banking business and general manager of Nanjing head office, assistant to the president and general manager of Shanghai head office, assistant to the president and secretary to the board of directors, assistant to the president and general manager of institution customer service departments, vice president and secretary to the board of directors, party committee member. He was the vice president, secretary to the Board of Directors, and party committee member of the Company from December 2007 to April 2017. He has been vice president and party committee member of the Company since April 2017 with the current term of office from December 2016 to December 2019.

MANAGEMENT AND CORPORATE GOVERNANCE

Ms. Shu Ben'e is the chief financial officer of the Company. Ms. Shu holds a bachelor's degree and is a certified public accountant. Ms. Shu was once the chief of finance division of Panda Electronics Group Co., Ltd. , and the deputy general manager of the planning and capital department of Jiangsu Securities Company. She worked at Huatai Securities Limited Liability Company as the deputy general manager of the capital planning department, the deputy general manager, executive deputy general manager and then general manager of the inspection and supervision department, and the general manager of the finance planning department. She was the general manager of the finance planning department from December 2007 to April 2016. She has been the chief financial officer of the Company since March 2012 with the current term of office from December 2016 to December 2019.

Ms. Li Yun is the chief compliance officer of the Company. Ms. Li holds a master's degree and is an economist. Ms. Li was once the principal member at the office of Nanjing Securities and Futures Commission, and the principal member of Nanjing Commissioner Office, principal member of the verification division of institution supervision department, deputy chief of the institution division of Jiangsu Securities Regulatory Bureau, and deputy chief and investigator of the No. 2 Division of Shanghai Commissioner Office of the CSRC. She has been the chief compliance officer of the Company since June 2012. Concurrently, from July 2012 to December 2014, she acted as the general manager of the Company's compliance and risk management department; from August 2014 to December 2016, she worked as the chief risk officer in the Company; from December 2014 to April 2016, she served as the general manager of the compliance and legal department of the Company. Ms. Li is the chief compliance officer and general legal counsel of the Company with the current term of office from December 2016 to December 2019.

Mr. Zhang Hui is the secretary to the Board of Directors of the Company. Mr. Zhang holds a doctor's degree in technology economy and management. Mr. Zhang has worked for Dongcheng District Personnel Exchange Service Center of Beijing, Brilliance Auto Corporation Shanghai Office, Tongshang Co., Ltd. and New Margin Capital Management Co., Ltd. He served as the senior manager of asset management head office of Huatai Securities Co., Ltd. and the deputy general manager of Business Department of Nantong Yaogang Road Branch. Mr. Zhang served as the general manager of Business Department of Shanghai Ruijin First Road Branch of the Company from January 2008 to February 2010, the deputy general manager of Security Investment Department of the Company from February 2010 to July 2012, the general manager of the Company's general office from July 2012 to January 2016, the general manager of the HR department of the Company from January 2016 to March 2019 and has been the secretary of the board of directors of Huatai Securities since April 2017 with the current term of office from December 2016 to December 2019.

Mr. Wang Chong is the chief risk officer of the Company. Mr. Wang holds a master's degree in computer and finance. Mr. Wang was the principal staff of the treasury department/global finance marketing department of Bank of China Limited from July 1995 to March 2003, and middle office chief of internal risk control for European treasury operations in London Branch of Bank of China Limited from March 2003 to May 2007. He also served as the team leader of interest rate derivative products and fixed income risks in J.P. Morgan Securities from June 2007 to January 2010 and the risk compliance officer of China International Capital Corporation (UK) Limited from January 2010 to November 2014. He has been the general manager of the risk management department of Huatai Securities Co., Ltd. since December 2014. He has been the chief risk officer of the Company since March 2017 with the current term of office from December 2016 to December 2019.

MANAGEMENT AND CORPORATE GOVERNANCE

Other Directorships

In addition to their directorships of the Company and certain subsidiaries, the Directors, Supervisors and senior management officers have held or hold the following directorships or have been or are members of the following partnerships, within the past five years.

Name	Current Directorships/Partnerships	Previous Directorships/Partnerships
Zhou Yi	● CSOP Asset Management Limited ● Huatai Financial Holdings ● AssetMark Financial Holdings, Inc.	● AssetMark Holdings, LLC ● Huatai International ● Huatai Purple Gold Investment ● Huatai Securities (Shanghai) Asset Management Co., Ltd. ● Nanjing Huatai Ruitong Investment Management Co., Ltd. ● Huatai Ruilian Funds Management Co., Ltd. ● Nanjing Huatai Ruixin Equity Investment Management Co., Ltd. ● Yili Huatai Ruida Equity Investment Management Co., Ltd. ● Shenzhen Huatai Junxin Fund Investment Management Co., Ltd. ● Beijing Huatai Tongxin Investment Fund Management Co., Ltd. ● Nanjing Huatai Ruixing Investment Management Co., Ltd. ● Jiangsu Emerging Industry Investment Co., Ltd.
Ding Feng	—	—
Chen Yongbing . . .	● Jiangsu Expressway Company Limited ● Jiangsu Port Group Co., Ltd. ● Jiangsu Railway Group Co., Ltd.	● Jiangsu Spruce Capital Management Co., Ltd. ● Jiangsu Spruce Clean Energy Investment Holding Co., Ltd. ● Nanjing Share Link Venture Capital Co., Ltd. ● Zhenjiang Junding Share Link Venture Capital Co., Ltd. ● Jiangsu Expressway Information Engineering Co., Ltd.

MANAGEMENT AND CORPORATE GOVERNANCE

Name	Current Directorships/Partnerships	Previous Directorships/Partnerships
		● Jiangsu Tongchang Property Investment Co., Ltd. ● Jiangsu Kuailu Auto Transportation Joint Stock Co., Ltd. ● Nantong Tianshenggang Power Generation Co., Ltd. ● Jiangsu Aviation Enterprises Group Co., Ltd. ● Jiangsu Expressway Petroleum Development Co., Ltd.
Xu Qing	● Jiangsu Addor Equity Investment Fund Management Co., Ltd. ● Jiangsu Gaohui Asset Operation and Management Co., Ltd.	● Suzhou Govtor Venture Capital Management Co., Ltd. ● Jiangsu International Trust Corporation Limited ● Nanjing Reinsurance Microfinance Technology Co., Ltd. ● Changzhou Gaorui Venture Capital Management Co., Ltd. ● Nanjing Asia Pacific Institute of Finance ● Jiangsu Cultural Investment & Management Group Co., Ltd. ● Jiangsu Govtor Electronic Information Co., Ltd. ● Jiangsu Govtor Venture Capital Management Co., Ltd. ● Jiangsu Hi-tech Venture Capital Co., Ltd. ● Jiangsu Hi-tech Venture Capital Management Co., Ltd. ● Jiangsu Hongrui Technology Venture Capital Co., Ltd. ● Jiangsu Suzhou New & High Venture Capital Co., Ltd. ● Wuxi High-Tech Risk Investment Co., Ltd. ● Changzhou High-Tech Venture Capital Co., Ltd.

MANAGEMENT AND CORPORATE GOVERNANCE

Name	Current Directorships/Partnerships	Previous Directorships/Partnerships
		● Suzhou Gaoyuan Venture Capital Co., Ltd. ● Jiangsu Gaoding Technology Venture Capital Co., Ltd. ● Jiangsu Gaojin Venture Capital Co., Ltd. ● Changzhou Govtor Venture Capital Co., Ltd. ● Suzhou New & High Risk Investment Venture Investment Management Co., Ltd. ● Suzhou Gaojin Venture Investment Co., Ltd. ● Nantong Gaosheng Growth Venture Capital Co., Ltd. ● Yancheng Govtor Venture Capital Co., Ltd. ● Yangzhou Govtor Venture Capital Co., Ltd. ● Yangzhou Gautou Venture Investment Management Co., Ltd. ● Jiangsu Gaohong Investment Management Co., Ltd. ● Jiangsu Fenghai New Energy Seawater Desalination Co., Ltd. ● SeuComm Corporation Ltd. ● Changzhou Govtor Venture Capital (Hong Kong) Co., Ltd. ● Merrill Lynch (Asia Pacific) Limited
Hu Xiao		
Fan Chunyan	—	—
Zhu Xuebo	—	—
Chen Chuanming . .	● Nanjing Iron & Steel Co., Ltd. ● GCL System Integration Technology Co., Ltd.	● Kunshan King Lai Hygienic Materials Co., Ltd. ● Nanjing Securities Co., Ltd.
Liu Hongzhong . . .	● Donghai Futures Co., Ltd. ● China International Fund Management Co., Ltd. ● Shanghai Construction Group Co., Ltd. ● Industrial Securities Co., Ltd.	● Shenyin & Wanguo Futures Company Limited

MANAGEMENT AND CORPORATE GOVERNANCE

Name	Current Directorships/Partnerships	Previous Directorships/Partnerships
Lee Chi Ming	● Benington Capital Management Co., Ltd. ● China Minsheng Drawin Technology Group Limited (previously known as South East Group Limited) ● Chung Ying Theatre Company Limited ● Cango Inc. ●	● China Baoli Technologies Holdings Limited (previously known as Rex Global Entertainment Holdings)
Liu Yan	● Beijing Tian Yuan Law Firm ● Huaxin Cement Co., Ltd. ● Yantai Changyu Pioneer Wine Co. Ltd. ● WuXi AppTec Co., Ltd.	—
Chen Zhibin	● Phoenix Publishing & Media, Inc.	● Hongbaoli Group Co., Ltd. ● Jiangsu Communications Planning and Design Institute Limited by Share Ltd. ● Kuangda Technology Group CO., Ltd. ● Jinling Hotel Corporation
Yu Yimin	● Jiangsu SOHO Investment Group Co., Ltd. ● Jiangsu Belt and Road Initiative Capital Management Co., Ltd. ● Jiangsu Govtor Capital Group Co., Ltd. ● Jiangsu Guoxin Investment Group Limited	● Suxin Energy Hefeng Co., Ltd. ● Jiangsu International Trust Corporation Limited ● Jiangsu Financial Holding Co., Ltd. ● Jiangsu SOHO Venture Capital Investment Co., Ltd. ● Jiangsu Emerging Industry Investment Management Co. ● Jiangsu Coastal Innovative Capital Management Co., Ltd.
Chen Ning	● Jiangsu International Trust Corporation Limited	● Jiangsu Investment Management Co., Ltd. ● Jiangsu Guoxin Group Finance Co., Ltd. ● Nanjing Yuejin Automobile Co., Ltd. ● Shanghai-Nanjing Intercity Railway Co., Ltd.

MANAGEMENT AND CORPORATE GOVERNANCE

Name	Current Directorships/Partnerships	Previous Directorships/Partnerships
Yu Lanying	● Jiangsu Jinsu Zheng Investment Development Co., Ltd.	● Jiangsu Ningchangzhen Li Expressway Limited Company ● Jiangsu GCL Ninghu Natural Gas Co., Ltd. ● Nanjing Hanwei Real Estate ● Jiangsu Zhendan Expressway Limited Company ● Jiangsu Lord Equity Investment Fund Management Co., Ltd.
Yang Yaling	● Jiangsu Gaotou Zijin Cultural Investment Management Co., Ltd. ● Yangzhou Govtor Venture Capital Co., Ltd. ● Hangzhou Donghan Gaotou Changsanjiao Equity Investment Management Co., Ltd. ● Jiangsu Coastal Innovative Capital Management Co., Ltd. ● Jiangsu Gaohong Venture Capital Co., Ltd. ● Changzhou Gaorui Innovation Investment Management Limited Company. ● Suzhou Govtor Venture Capital Management Co., Ltd. ● Jiangsu Hi-tech Venture Capital Management Co., Ltd. ● Jiangsu Govtor Xinhai Venture Capital Co., Ltd. ● Zhejiang Donghan Gaotou Changsanjiao Investment Partnership Enterprise ● Jiangsu Govtor Development and Venture Capital Co., Ltd. ● Xuzhou Hi-tech Venture Capital Co., Ltd. ● Jiangsu Govtor Capital Small & Medium Enterprises Venture Capital Fund. ● Jiangsu Yingneng Venture Capital Co., Ltd. ● Govtor Mingli Chengzhang Venture Capital Co., Ltd.	● Jiangsu Govtor Electronic Information Co., Ltd. ● Jiangsu Govtor Venture Capital Management Co., Ltd. ● Nantong Gaosheng Chengzhang Venture Capital Co., Ltd.

MANAGEMENT AND CORPORATE GOVERNANCE

Name	Current Directorships/Partnerships	Previous Directorships/Partnerships
	● Yancheng Govtor Venture Capital Co., Ltd.	
Meng Qinglin	● Jiangsu Equity Exchange Centre Co., Ltd. ● Huatai Securities (Shanghai) Asset Management Co., Ltd.	—
Gu Chengzhong . . .	—	—
Zhai Jun	● Huatai-PineBridge	—
Ma Zhaoming	—	—
Sun Hanlin	—	—
Wu Zufang	● Huatai Futures	● Huatai Purple Gold Investment ● Huatai-PineBridge
Jiang Jian	● Bank of Jiangsu ● Huatai Purple Gold Investment ● Huatai Financial Holdings	● E-Capital Transfer Co., Ltd ● Huatai International ● Huatai United ● Jiangsu Equity Exchange Centre Co., Ltd. ● China Southern Asset Management ● Nanjing Huatai Ruitong Investment Management Co., Ltd.
Shu Ben'e	● Huatai Futures	● Huatai Purple Gold Investment ● Nanjing Huatai Ruitong Investment Management Co., Ltd. ● Nanjing Huatai Ruixing Investment Management Co., Ltd.
Li Yun	—	—
Zhang Hui	● China Southern Asset Management	—
Wang Chong	● Huatai International ● Huatai Securities USA holdings, Inc. ● Huatai Securities (USA), Inc.	—

Conflicts of Interest

There are no potential conflicts of interest between any duties owned by the Directors, Supervisors or senior management officers to the Company and their private interests and/or other duties.

None of the Directors, Supervisors or senior management officers are related to one another for the purposes of the Prospectus Rules.

MANAGEMENT AND CORPORATE GOVERNANCE

Litigation Statement about Directors, Supervisors and Senior Management Officers

As at the date of this Prospectus, none of the Directors, Supervisors or senior management officers has in the previous five years:

- had any convictions in relation to fraudulent offences;
- has been a member of the administrative, management or supervisory bodies of any company, or been a partner in any partnership, at the time of or preceding any bankruptcy, receivership or liquidation; or
- been subject to official public incrimination or sanction by a statutory or regulatory authority (including a professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Corporate Governance

At the date of this Prospectus, the Company is in full compliance with the corporate governance requirements applicable to it, as a PRC public company listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

The Company operates within a comprehensive governance framework, which aims to add value to shareholders through the adoption of international best practice. Certain responsibilities of the Board of Directors are delegated to the specialised committees to assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management. The five principal specialised committees (the Development Strategy Committee, the Compliance and Risk Management Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee) play an essential role in supporting the Board of Directors in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Company. All the specialised committees shall be accountable to and submit working reports to the Board of Directors, which shall listen to the opinions of the specialised committees before making any decisions on matters related to the duties of the specialised committees.

Development Strategy Committee

The Development Strategy Committee is mainly responsible for studying and predicting the long-term development strategies of the Company and determining the development strategic plan of the Company. The specific duties include: (i) understanding and grasping the comprehensive situation of the operation of the Company; (ii) understanding, analysing and grasping the current situation of the international and domestic industries; (iii) being aware of and supervising relevant national policies; (iv) studying the short-term, medium-term and long-term development strategies and relevant issues of the Company; (v) providing consultation and advice on the long-term development strategies, material investment, reform and other substantial decisions of the Company; (vi) reviewing and approving the special research report on the development strategies; (vii) issuing daily research report on a regular or irregular basis; and (viii) other duties granted by the Board. The meeting of the Development Strategy Committee shall be convened by the Chairman of the Company. The Development Strategy Committee is chaired by Zhou Yi and consists of Zhou Yi, Hu Xiao and Liu Hongzhong.

MANAGEMENT AND CORPORATE GOVERNANCE

Compliance and Risk Management Committee

The Compliance and Risk Management Committee assists the Board of Directors on, among other things, (i) reviewing and opining on overall objectives and basic policies of compliance management and risk management; (ii) reviewing and opining on establishment of specific organisational departments and duties of compliance management and risk management; (iii) evaluating and opining on the risk of major decisions and solution for eliminating such major risk required to be considered and approved by the Board of Directors; and (iv) reviewing and opining on compliance reports and risk evaluation reports required to be considered and approved by the Board of Directors. The Compliance and Risk Management Committee is chaired by Ding Feng and consists of Ding Feng, Xu Qing and Fan Chunyan.

Audit Committee

The Audit Committee assists the Board of Directors on, among other things, (i) monitoring the annual audits, making judgements on the truthfulness, accuracy and completeness of audited financial reports and submitting to the Board of Directors for consideration; (ii) proposing to hire or replace the external auditor, and supervise the practice of external auditors; (iii) being responsible for the communications between the internal audit and the external audit; (iv) reviewing the financial supervision, internal control and risk management system of the Company; and (v) discussing with the management level about the internal control system to ensure that the management level has performed its duty of establishing an effective internal control system. The Audit Committee is chaired by Lee Chi Ming and consists of Lee Chi Ming, Chen Yongbing and Chen Zhibin, all of whom are non-executive Directors and among them, Lee Chi Ming is an Independent Director.

Nomination Committee

The Nomination Committee assists the Board of Directors on, among other things, (i) reviewing and opining on the election standards and procedures of the Directors and senior management officers; (ii) searching for eligible candidates for Directors and senior management officers; (iii) reviewing and opining on the qualification criteria of candidates for Directors and senior management officers; and (iv) reviewing the structure, size and composition of the Board of Directors (including the expertise, knowledge and experience) at least annually. The Nomination Committee is chaired by Chen Chuanming and consists of Chen Chuanming, Zhu Xuebo and Liu Yan.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee assists the Board of Directors on, among other things, (i) reviewing and opining on the remuneration and appraisal management system of Directors and senior management officers; and (ii) assessing and opining on the Directors and senior management officers. The Remuneration and Appraisal Committee is chaired by Chen Chuanming and consists of Chen Chuanming, Zhu Xuebo and Liu Yan.

Executive Committee

On 29 March 2019, the Company announced that, in order to actively explore and establish a new management structure, improve management and operational efficiency, and specify work responsibilities, the Company intends to establish an executive committee and a position of CEO, and no longer keeps the positions of president and vice president. The executive committee of the Company is the highest operational and management organisation of the Company for the purpose of

MANAGEMENT AND CORPORATE GOVERNANCE

the implementation of the guidelines and policies of the board of directors. The Company plans to convene a shareholders' meeting in June 2019 during which this proposal would be considered.

Remuneration

The aggregate amount of pre-tax remuneration received from the Company by the Directors, Supervisors and senior management officers as a group for services in all capacities provided to the Company during the year ended 31 December 2018 was RMB35.5 million. The aggregate amount set aside or accrued by the Company to provide pension, retirement or similar benefits to the Directors, Supervisors and senior management officers during the year ended 31 December 2018 was RMB1.7 million.

Employment Contracts with the Directors, Supervisors and Senior Management Officers

As a general rule, employment contracts in China include fixed-term employment contracts and open-ended employment contracts where the Company and the employee have agreed not to stipulate a definite ending date.

The Company may terminate the employment of its directors, supervisors and senior management officers only on the basis of specific grounds, in accordance with the general provisions envisaged by the Chinese Labour Contract Law, which include: (i) expiration of the employment contract; (ii) the employee has commenced receiving basic pension insurance; (iii) the employee dies, or is declared dead or missing by a People's Court; (iv) the Company is announced as bankrupt according to law; (v) the Company has its business licence revoked, is ordered to close or is closed down, or the Company decides on early liquidation; and (vi) other grounds as stated in laws or administrative regulations occur.

The Company may terminate the employment contract if it notifies the employee in writing 30 days in advance or after it pays the employee an extra month's compensation, under the circumstances: (i) the employee is not competent to take working responsibility of the original position or new position arranged by the Company after medical treatment due to illness or non-work-related injury; (ii) the employee is not qualified for the work, even after being trained or adjusted to different positions; and (iii) some significant changes happen so that the contract cannot be continued. Directors, supervisors and senior management officers shall pay damages, if they voluntarily resign or are dismissed, which results in the service period being terminated in advance. Under the Chinese legal system, a service period is a different concept from the term of an employment contract. Where an employer pays special training expenses for the special technical training of its employees, the employer may enter an agreement with its employees to specify their service period.

MANAGEMENT AND CORPORATE GOVERNANCE

Interests of Board of Directors, Supervisors and Senior Management Officers

The table below sets out the interests of the Directors, Supervisors and senior management officers in the Company's share capital as at the date of this Prospectus, unless stated otherwise, and after the completion of the Offering.

Name of Directors, Supervisors and Senior Management Officers	Number of Shares Before the Offering			Number of Shares After the Offering ⁽²⁾		
	Number of Shares	Shareholding of A or H Shares	Shareholding of total share capital (%)	Number of Ordinary Shares	Shareholding of A or H Shares	Shareholding of total share capital (%)
Zhou Yi ⁽¹⁾	353,261	H Shares	0.004	353,261	H Shares	0.004
Li Yun ⁽¹⁾	211,957	H Shares	0.003	211,957	H Shares	0.002
Zhu Xuebo ⁽¹⁾	211,957	H Shares	0.003	211,957	H Shares	0.002
Total	<u>777,175</u>	<u>H Shares</u>	<u>0.009</u>	<u>777,175</u>	<u>H Shares</u>	<u>0.009</u>

(1) Held through an asset management scheme.

(2) Assuming 825,150,000 new A Shares are issued by the Company in connection with the Offering.

Save as disclosed above, none of the Directors, Supervisors or senior management officers of the Company holds any interest in the Company's share capital.

None of the Directors, Supervisors or senior management officers of the Company holds options in respect of the Company's shares.

PRINCIPAL SHAREHOLDERS

As at the date of this Prospectus, the Company had issued a total of 6,532,454,320 A Shares with a par value of RMB1.0 per share and 1,719,045,680 H Shares with a par value of RMB1.0 per share. No shareholder has different voting rights attached to the Shares to any other shareholder. The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

The table below sets forth certain information regarding those shareholders of the Company which before and immediately following the Admission (assuming 82,515,000 GDRs representing 825,150,000 A Shares are sold in the Offering) hold or will hold more than 5% of total A Shares or H Shares of the Company:

Shareholder	Type of Shares	Shares owned before the Offering			Shares owned after the Offering ⁽¹⁾		
		(Number)	(% of A or H Shares)	(% of total capital)	(Number)	(% of A or H Shares)	(% of total capital)
Jiangsu Guoxin Investment Group Limited	A Shares	1,271,072,836	19.46	15.40	1,271,072,836	17.28	14.00
	H Shares	25,727,600	1.50	0.31	25,727,600	1.50	0.28
Jiangsu Communications Holding Company Limited	A Shares	451,175,418	6.91	5.47	451,175,418	6.13	4.97
	H Shares	15,381,200	0.89	0.19	15,381,200	0.89	0.17
Govtor Capital Group Co., Ltd.	A Shares	342,028,006	5.24	4.15	342,028,006	4.65	3.77
	H Shares	9,650,000	0.56	0.12	9,650,000	0.56	0.11
National Council for Social Security Fund	H Shares	156,276,880	9.09	1.89	156,276,880	9.09	1.72
BlackRock, Inc.	H Shares	107,357,751	6.25	1.30	107,357,751	6.25	1.18
Citigroup Inc.	H Shares	88,192,618	5.13	1.07	88,192,618	5.13	0.97

(1) Assuming 825,150,000 new A Shares are issued by the Company in connection with the Offering.

RELATED PARTY TRANSACTIONS

For the purposes of the Audited Consolidated Financial Statements, parties are considered to be related in line with the requirements of IAS 24. The Company is, and has been, a party to various agreements and other arrangements with certain of its shareholders. IAS 24 “Related Party Transactions” contains a definition of related parties, which are, broadly, parties under common control or one party controlling the other party or capable of exercise of significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As presented in the Audited Consolidated Financial Statements as at and for the years ended 31 December 2016, 2017 and 2018 and the Unaudited Condensed Consolidated Financial Statements of the Group as at and for the three months ended 31 March 2019, the Group entered into transactions with its related parties in the ordinary course of its business from time to time, relating mainly to (i) asset management, (ii) financial products sales, (iii) securities, futures and options brokerage and underwriting and (iv) investment banking and institutional sales. These related party transactions were conducted on an arm’s length basis and with normal commercial terms between the relevant parties. For further details on the Group’s related party transactions, see note 53 of the Audited Consolidated Financial Statements as at and for the years ended 31 December 2016 and 2017, note 57 of the Audited Consolidated Financial Statements as at and for the year ended 31 December 2018 and note 52 of the Unaudited Condensed Consolidated Financial Statements of the Group as at and for the three months ended 31 March 2019. The Company and its subsidiaries enter into contracts for related party transactions from time to time in respect of the provision of securities brokerage services, bank deposit services, asset management services and securities underwriting services as well as dividend distribution, among other things. Since 31 March 2019 and up to the latest practicable date of this Prospectus, the Company and/or its subsidiaries had not entered into any new contracts with respect to related party transactions that are, as a single transaction or in their entirety, material to the Group during the same period.

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

General

The Company was founded in the form of a joint stock company with limited liabilities in accordance with the PRC Company Law, the PRC Securities Law and other applicable regulations, and it has conducted business since its incorporation in conformity with its Articles of Association and the aforesaid laws and regulations. In the event that the Offering succeeds and the Company's Offer GDRs are admitted to be traded on the Shanghai-London Stock Connect segment of the Main Market of the London Stock Exchange, the Company shall also be subject to certain provisions of the London Stock Exchange's Admission and Disclosure Standards, the Listing Rules and the Disclosure Guidance and Transparency Rules, as well as other applicable capital markets regulations.

The PRC Company Law establishes the main rules relating to the registration, operation, merger, spin-off and winding-up of PRC companies. Listed companies on the London Stock Exchange must also comply with additional rules provided, inter alia, by the EU Market Abuse Regulation, primarily addressing the reporting obligations of listed companies.

Objectives and Scope of Business

Pursuant to Chapter II of the Articles of Association, the operational objectives of the Company is to explore, develop and flourish securities business in China, expand fund financing channels, improve socialist financial market and system, and support the state's economic construction, and the scope of business of the Company includes securities brokerage business, proprietary trading of securities, securities underwriting business (limited to the underwriting of treasury bonds, debt financing instruments of non-financial enterprises and financial bonds (including policy financial bonds)), securities investment consultancies, providing futures companies with intermediary referrals, margin financing and securities lending business, proxy sale of financial products, proxy sale of securities investment fund, custody of securities investment fund, agency services for gold and other precious metal spot contracts, proprietary business for spot gold contracts, and stock options market making business and such other business as approved by the CSRC.

Issued Share Capital

As at the date of this Prospectus, the Company had a total share capital of 8,251,500,000 Shares that amounted to RMB8,251.5 million, including:

Type of share	Stock exchange for listing	Stock name and code	Number of shares	Percentage of the total share capital
A Shares	Shanghai Stock Exchange	华泰证券 (601688)	6,532,454,320	79.2%
H Shares	Hong Kong Stock Exchange	HTSC (6886)	1,719,045,680	20.8%

As at the date of this Prospectus, each Share of the Company has a par value of RMB1.00. The Shares have been issued by the Company in the form of registered stock certificates.

Save as disclosed in Note 49 of the audited consolidated financial statements as at and for the years ended 31 December 2016 and 2017 and Note 53 of the audited consolidated financial statements as at and for the year ended 31 December 2018 included in this Prospectus, as at the date of this Prospectus, neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or its subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

Evolution of Changes in the Company's Share Capital

The table below presents the changes in the Company's share capital as at 31 December 2016, 31 December 2017, 31 December 2018, 31 March 2019 and the date of this Prospectus:

Date	Number of Shares	Share Capital Value
	(RMB in thousands)	
31 December 2016	7,162,769	7,162,769
31 December 2017	7,162,769	7,162,769
31 December 2018	8,251,500	8,251,500
31 March 2019	8,251,500	8,251,500
As at the date of this Prospectus	8,251,500	8,251,500

In July 2018, the Company entered into share subscription agreements with each of the six investors, namely Alibaba (China) Technology Co., Ltd., Suning.Com Co., Ltd., Essence Securities Co., Ltd., China Structural Reform Fund Corporation Limited, Shanghai BeiXin RuiFeng Asset Management Co., Ltd., and Sunshine Property and Casualty Insurance Co., Ltd., subscribing for a total of 1,088,731,200 shares of the Company.

Pursuant to ordinary resolutions dated 22 October 2018, the A shareholders and the H shareholders of the Company approved the issuance of no more than 825,150,000 new A Shares by the Company to the Depositary in connection with the Offering.

Rights, Preferences and Restrictions Attaching to Existing Shares

Shareholders of the Company shall enjoy rights and bear obligations according to the class and quantity of their Shares. Holders of the same class of Shares shall enjoy the same rights and bear the same obligations.

Voting rights

A shareholder (including his or her proxy) shall vote based on the number of his or her voting Shares, with one Share representing one vote. The Company's Shares which are held by the Company do not carry any voting rights, and shall not be counted in the total number of voting Shares represented by shareholders attending a General Meeting.

When material issues affecting the interests of minority shareholders are considered at a General Meeting, the votes of minority shareholders shall be counted separately. The separate votes counting results shall be disclosed publicly in a timely manner.

When a connected transaction is considered at a General Meeting, connected shareholder(s) shall not vote, and the voting Shares held by such shareholder(s) shall not be counted in the total number of Shares with voting rights. The announcement of the resolutions of the General Meeting shall fully disclose the voting of non-connected shareholders.

Rights to dividends

The Company may distribute dividends in the form of cash, Shares or a combination of cash and Shares. Any proposed distribution of dividends shall be formulated by the Board of Directors of the Company and will be subject to the shareholders' approval.

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

According to the applicable PRC laws and the Articles of Association, the Company will pay dividends out of its after-tax profit only after it has made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory reserve fund equivalent to 10% of its after-tax profit, and, when the statutory reserve fund reaches and is maintained at or above 50% of the Company's registered capital, no further allocations to this statutory reserve fund will be required;
- allocations to the general risk reserve not less than 10% of its after-tax profit, and, when the general risk reserve reaches and is maintained at or above 50% of the Company's registered capital, no further allocations to this general risk reserve will be required;
- allocations to the transaction risk reserve of not less than 10% of its after-tax profit; and
- allocations, if any, to any optional reserve fund that are approved by the shareholders in a General Meeting.

Furthermore, as required by the CSRC, as a securities firm, the Company is not allowed to distribute the gains from fair value changes of financial assets that are included in its distributable profits.

Subject to the aforesaid allocations and restrictions, the remaining after-tax profits of the Company shall be distributed as dividends to the shareholders pursuant to the ratio of their shareholding, unless otherwise provided by the Articles of Association of the Company. Also, pursuant to its Articles of Association, when the Company records a positive profit for the year and has positive retained profits, and except under extraordinary circumstances where the Company may breach regulatory capital requirements, the Company is required to distribute cash dividends to its shareholders in any three consecutive fiscal years in an amount equal to at least 30% of the average annual distributable profits in the same period, unless the special condition occurs under which the Company plans to conduct material investments or make major cash expenses within the next twelve months, or that may result in the fact that the Company fails to comply with the regulatory requirements regarding net capital. In addition, upon the proposal by the Board of Directors and approval by the General Meeting, an interim dividend distribution may be made in the form of cash. The Company may distribute dividends in the form of Shares based on its annual profits and cash flow status and subject to the satisfaction of the lowest ratio for cash dividend and the reasonableness of the Company's equity scale.

Within two months after the General Meeting makes the resolution for the proposal of dividend distribution, the Company's Board of Directors shall complete such dividend distribution. For holders of overseas listed foreign Shares (i.e. the H Shares), the Company shall appoint receiving agents for such holders, which shall, on behalf of the related shareholders, receive dividends distributed and other accounts payable by the Company to the relevant overseas listed foreign Shares.

Other rights of shareholders

Besides the aforesaid voting rights and rights to dividends, the shareholders of the Company shall enjoy the following rights:

- to lawfully request, convene, preside over, and attend General Meetings either in person or by proxy;

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

- to supervise, raise suggestions on or make inquiries about the operations of the Company;
- to transfer, gift or pledge their Shares in accordance with laws, administrative regulations, relevant requirements of the securities regulatory authorities in the place where the Company's Shares are listed and the Articles of Association;
- to obtain relevant information in accordance with the Articles of Association;
- upon termination or liquidation of the Company, to participate in the distribution of the remaining property of the Company in proportion to the quantity of Shares held by them;
- to require the Company to buy back their Shares in the event of objection to resolutions of the General Meetings concerning merger or division of the Company; and
- to enjoy other rights stipulated by laws, administrative regulations, departmental rules or the Articles of Association.

Provisions regarding redemption of Shares

The Company may and only may, in the following circumstances, buy back its issued Shares pursuant to laws, administrative regulations, departmental rules and the Articles of Association:

- cancellation of Shares in order to reduce of its registered capital;
- mergers with other companies holding Shares of the Company;
- grant of Shares to employees of the Company as an incentive;
- shareholders who object to resolutions of the General Meeting on merger or division of the Company requesting the Company to buy back their Shares; and
- other circumstances permitted by laws and administrative regulations.

The Company may buy back its issued Shares by any of the following ways:

- offering to buy back Shares to all shareholders on a pro rata basis;
- buying back through public transaction on the stock exchange;
- buying back through agreement outside the stock exchange; and
- other forms approved under laws, administrative regulations and by relevant competent authorities.

In respect of the redeemable Shares that the Company has the right to buy back, if the buyback is to make in a manner other than through the market or by tender, the price must be limited in a maximum price; if the buyback is to be made by tender, such offer shall be made available to all shareholders equally on the same terms. In addition, under certain circumstances specified in the PRC Company Law, the Company may only buy back its shares through public transactions on the stock exchange.

Restrictions on free transferability of Shares

Subject to the following restrictions and save as otherwise specified by the state laws, administrative regulations, and relevant provisions of the securities regulatory authorities at the place where the Company's Shares are listed, Shares of the Company may be transferred freely and without any liens:

- all the Company's overseas listed foreign Shares listed on the Hong Kong Stock Exchange for which the share capital has been paid in full may be transferred freely, provided that

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

such transfer shall be registered with the Hong Kong-based share registrar designated by the Company;

- the Company shall not accept its own Shares as the subject matter of a pledge;
- the Shares of the Company held by the promoters shall not be transferred within one year from the date of the incorporation of the Company. Shares already issued by the Company before the public offering shall not be transferred within one year from the date of the Shares of the Company are listed on a stock exchange;
- the Directors, Supervisors and senior management officers of the Company shall report to the Company their shareholdings and changes thereof and shall not transfer more than 25% of their Shares per annum during their terms of office (unless otherwise caused by enforcement of law or by inheritance, bequest or lawful division of property); the Shares they hold in the Company shall not be transferred within one year from the date that the Shares of the Company are listed. The aforesaid persons shall not transfer their Shares in the Company within half a year after they terminate service with the Company;
- if the Company's Directors, Supervisors, senior management officers, and shareholders holding 5% or above Shares of the Company sell Shares within six months after buying the same or buy Shares within six months after selling the same, the earnings arising there from shall belong to the Company and the Board shall recover such earnings. However, the six-month restriction shall not be applicable to any sale of Shares by a securities firm holding 5% or above of the Company's Shares as a result of its underwriting and purchase of the untaken Shares after offering; and
- the 1,088,731,200 A Shares offered by the Company under the private placement on 2 August 2018 shall not be transferred within one year from the date of the issuance.

Rules relating to mandatory takeover bids and/or squeeze-out and sell-out in relation to Shares

PRC

Pursuant to the Measures for the Administration of Acquisition of Listed Companies (《上市公司收购管理办法》) promulgated by the CSRC and last amended in October 2014 (the “**PRC Takeover Rules**”), any person (the “**offeror**”) who holds, controls or beneficially owns 30% or more shares in a company listed in the PRC (including the Company) and who wishes to further acquire additional shares in the listed company must (unless a waiver is granted by the CSRC or an exemption is available) do so through a tender offer to all other shareholders of the listed company to purchase:

- all or a specified percentage of their shares in the listed company, if the offeror is a direct shareholder of the listed company; or
- all their shares, if the offeror indirectly controls or holds the beneficial ownership of its existing shares through investments, agreements or other arrangements.

The offeror must notify the target company, publish a takeover alert, and prepare and publish a tender offer report.

Pursuant to the PRC Takeover Rules, shares proposed to be purchased through a tender offer must be no less than 5% of the outstanding shares of the listed company. The offeror must treat all shareholders of the listed company equally, and the offer price must be no less than the highest price

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

the offeror has paid for the acquisition of the shares in the same listed company during the six months prior to its publication of the takeover alert. Unless there is a competing tender offer to acquire the same listed company, the offer period must be no less than 30 days and no more than 60 days. During the offer period specified in the tender offer report, the offeror may not cancel the tender offer, sell any shares in the listed company, or purchase any shares in the listed company through any other means. Any competing tender offer to acquire the same listed company must be made prior to the 15th day prior to the end of the offer period. Unless there is a competing tender offer to acquire the same listed company, the offeror may not change the terms of the tender offer during the last 15 days of the offer period.

If an offeror cancels the proposed tender after the publication of a takeover alert and prior to the publication of the tender offer report, such offeror may not acquire the same listed company within the 12 months upon the publication of the takeover alert.

Any shareholder may indicate acceptance of the offer during the offer period, which may be withdrawn up to the third trading day prior to the end of the offer period. The shareholder who has indicated its acceptance of the tender offer may not transfer its shares unless such indication is withdrawn.

Hong Kong

The Hong Kong Code on Takeovers and Mergers (the “**Code**”) applies to all public companies in Hong Kong and companies with a primary listing of their equity securities in Hong Kong.

Under the Code, a mandatory general offer (“**MGO**”) in respect of all the shares of a listed company must be made when: (i) a person together with persons acting in concert with it, who collectively hold less than 30% of the voting rights of a company, acquires voting rights and such acquisition has the effect of increasing their collective holding of voting rights to 30% or more of the voting rights of the company; or (ii) any person who, together with parties acting in concert with it, holds not less than 30% but not more than 50% of the voting rights acquires additional shares which increases their voting rights by more than 2% from the lowest percentage holding in the 12 month period ending on and inclusive of the date of the acquisition. The Hong Kong Securities & Futures Commission (“**SFC**”) may grant dispensations of the obligation to make a general offer in limited circumstances.

In the case of an A share and H share dual-listed company, an MGO is triggered when a person, together with parties acting in concert with it, acquires voting rights equal to 30% or more of all the A and H shares in issue. Where a company has more than one class of shares in issue, the offeror is generally required to make a comparable offer for the other classes of shares in issue unless the offeror obtains a waiver from the SFC from doing so.

An MGO must be conditional only on the offeror having received acceptances (together with voting rights already acquired or agreed to be acquired before or during the offer by the offeror and parties acting in concert with it) representing more than 50% of the voting rights, and the offer must be in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror or any person acting in concert with it for shares of that class during the offer period and in the previous 6 months.

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

The Code contains comprehensive rules as to who will be treated as a party acting in concert. Primarily, persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate to obtain or consolidate "control" of a company through the acquisition by any of them of voting rights of the company. "Control" is defined as a holding, or aggregate holdings, of 30% or more of the voting rights of a company, irrespective of whether that holding or holdings gives de facto control. The Code also sets out a number of classes of persons who will be presumed to be acting in concert with others in the same class unless the contrary is established.

The acquisition of a majority stake in a listed company does not guarantee privatisation. Unless the relevant compulsory acquisition provisions are triggered, the offeror will not be able to privatise the listed company without going through the delisting requirements in the Listing Rules. The Code prescribes the procedures for implementing a squeeze-out. In addition, the target company must comply with any procedures or requirements for compulsory acquisition of shares following a takeover offer set out in the relevant company laws under which the target is incorporated.

Under the Code, if an offeror intends to delist the listed company following a general offer, the resolution to approve the delisting must be subject to: (i) at least 75% approval by disinterested shareholders; (ii) not more than 10% disapproval by disinterested shareholders; and (iii) the offeror being entitled to exercise, and exercising, its rights of compulsory acquisition.

The Code also provides that, unless the SFC agrees otherwise, in addition to satisfying the requirements under the relevant companies law under which the target is incorporated, compulsory acquisition rights can only be used if acceptances of the offer and purchases of disinterested shares made by the offeror and persons acting in concert with it during the period of four months after posting the offer document total 90% of the disinterested shares.

There are other laws and regulations regulating certain aspects of takeovers, including the laws and regulations on insider dealing, disclosure of inside information and disclosure of interest in shares.

To the best knowledge of the Company, there is no public takeover bid by third parties in respect of the Company's Shares that has occurred during the year ended 31 December 2018 and the period from 1 January 2019 till the date of this Prospectus.

Variation of rights

Pursuant to Section 7, Chapter IV of the Articles of Association, the Company shall not proceed to change or abrogate the shareholders' rights of a class of shares unless such proposed change or abrogation has been approved by way of a special resolution at a general meeting and by a separate shareholder meeting convened by the shareholders of the class of shares so affected.

The following circumstances shall be deemed as change or annulment of the rights of a certain class shareholder:

- to increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- to convert all or part of the shares of such class into shares of another class, or to convert all or part of the shares of another class into shares of such class or the grant of the right to such change;

DESCRIPTION OF THE COMPANY'S SHARE CAPITAL

- to remove or reduce of rights to accrued dividends or cumulative dividends attached to shares of such class;
- to reduce or cancel rights attached to the shares of the said class to preferentially receive dividends or to preferentially receive distributions of assets in a liquidation of the Company;
- to add, cancel or reduce share conversion rights, options, voting rights, transfer rights, pre-emptive placing rights, or rights to acquire securities of the Company attached to the shares of the said class;
- to cancel or reduce rights to receive payments made by the Company in a particular currency attached to the shares of the said class;
- to create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of the said class;
- to restrict the transfer or ownership of the shares of the said class or to impose additional restrictions;
- to issue rights to subscribe for, or to convert into, shares of the said class or another class;
- to increase the rights and privileges of the shares of another class;
- to restructure the Company in such a way as to cause shareholders of different classes to bear liabilities disproportionately during the restructuring; and
- to amend or delete the above provisions.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

*The following terms and conditions (the “**Conditions**”), subject to completion and amendment and excepting sentences in italics, will apply to the global depositary receipts (the “**GDRs**”) and will be endorsed on each global depositary receipt certificate (the “**GDR Certificates**”).*

The GDRs are issued in respect of the A Shares, par value RMB1.00 each (the “**Shares**”), of Huatai Securities Co., Ltd. (the “**Company**”), pursuant to and subject to the Deposit Agreement dated 3 December 2018 by and between the Company and Citibank, N.A., as depositary (the “**Depositary**”) (the “**Deposit Agreement**”). Each GDR represents the right to receive, subject to the terms of the Deposit Agreement and the Conditions, ten Shares on deposit under the terms of the Deposit Agreement.

Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Industrial and Commercial Bank of China Limited as custodian to receive and hold in an account of the Depositary the Shares from time to time deposited under the Deposit Agreement (the “**Deposited Shares**”), and to receive and hold for the account and to the order of the Depositary all rights, securities, property and cash deposited with or via the Custodian which are attributable to the Deposited Shares (such rights, securities, property and cash together with the Deposited Shares, the “**Deposited Property**”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued. In these Conditions references to the “**Depositary**” are to Citibank, N.A. and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “**Custodian**” are to Industrial and Commercial Bank of China Limited or any other custodian which may from time to time be appointed under the Deposit Agreement and references to the “**Office**” mean, in relation to the Custodian, the principal office of the Custodian in the PRC (currently at No. 55 Fuxingmennei Street, Xicheng District, Beijing, P.R.C, Post Code:100140).

References in these Conditions to the “**Holder**” of any GDR shall mean the person registered as the holder of any GDR on the books of the Depositary maintained for such purpose. References in these Conditions to “**Beneficial Owner**” of any GDR shall mean any person who is the beneficial owner of GDRs as determined in accordance with Rule 13d-3 and Rule 13d-5 under the Exchange Act. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the GDR Certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the principal office of the Depositary. Holders and Beneficial Owners are deemed, by virtue of being a Holder or Beneficial Owner, to have notice of, and be subject to, all of the applicable provisions of the Deposit Agreement and the Conditions. Terms used in the Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement.

The Depositary shall hold Deposited Property for the benefit of the Holders as bare trustee in proportion to the number of Shares in respect of which the GDRs held by them are issued and the Holders will accordingly be tenants in common of such Deposited Property to the extent of the Deposited Property corresponding to the GDRs in respect of which they are the Holders. For the avoidance of doubt, in acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property as bare trustee as aforesaid, does not assume any relationship of trust for or with the Holders or the Beneficial Owners or any other person. Any right or power of the Depositary in respect of Deposited Property is reserved by the Depositary under its declaration of trust contained in this paragraph and is not given by way of grant by any Holder or Beneficial Owner.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

Holders and Beneficial Owners of GDRs are not parties to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce certain specified provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which it is the Holder relate.

Holders and Beneficial Owners are deemed, by virtue of being a Holder or Beneficial Owner and owning, acquiring or holding, as the case may be, a GDR, to have notice of and be subject to all applicable provisions of the Deposit Agreement and the Conditions. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement or the Conditions on behalf of any Holder or Beneficial Owner of a GDR or any other person.

GDRs will initially take the form of global GDRs evidenced by a Master GDR Certificate (the “Master GDR Certificate”) registered in the name of Citivic Nominees Limited as nominee for Citibank Europe plc, as Common Depositary (the “Common Depositary”), and will initially be held by the Common Depositary for Euroclear Bank SA/NV, as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”) and for the account of accountholders in Euroclear or Clearstream (“Euroclear Participants” and “Clearstream Participants”, respectively), as the case may be. The Master GDR Certificate will be exchangeable for a GDR Certificate in definitive registered form in the limited circumstances as described below.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the GDRs, the Company and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available GDR Certificates in definitive registered form.

Under the terms of the GDRs, each purchaser of GDRs is deemed to have represented and agreed, among other things, that the GDRs have not been and will not be registered under the Securities Act and may be offered, sold, pledged or otherwise transferred only in a transaction exempt from, or not subject to, the registration requirements of the Securities Act. Each GDR will contain a legend to the foregoing effect.

For a description of the restrictions on the transfer of the GDRs see “Selling Restrictions and Transfer Restrictions” and “Plan of Distribution”.

1. Deposit of Shares

- A. The Depositary may, in accordance with the terms of the Deposit Agreement, but subject to the Conditions, and upon delivery of (x) a duly executed or electronically submitted order (in a form approved by the Depositary) and (y) a duly executed or electronically submitted deposit certification substantially in the form attached to the Deposit Agreement by or on behalf of any investor who is to become the Beneficial Owner of the GDRs (other than in the case of a deposit of Shares by the Company or an Affiliate of the Company which shall be subject to Clause 7.1.4 of the Deposit Agreement), from time to time issue and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects and, subject to

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

the terms of the Deposit Agreement, the Conditions and applicable law, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The deposit certificate to be provided pursuant to the Deposit Agreement certifies, among other things, that the person providing such certificate is not an “affiliate” of the Company, is not a “US person” (as defined in Regulation S), has acquired, or has agreed to acquire and will have acquired, the Shares to be deposited in an “offshore transaction” (as defined in Regulation S) and will comply with the restrictions on transfer applicable to GDRs set forth under “Selling Restrictions and Transfer Restrictions.”

- B. Subject to the terms and conditions of the Deposit Agreement and applicable law, upon (i) physical delivery to the Custodian of Shares, or book-entry transfer of Shares to an account in the name of the Depositary at the CSDC, (ii) physical or electronic delivery to the Depositary of the applicable deposit certification unless the deposit of Shares is made by the Company or an Affiliate of the Company in which case such deposit will be subject to Section 7.1.4 of the Deposit Agreement, and (iii) payment of necessary taxes, governmental charges (including transfer taxes) and other charges as set forth in the Deposit Agreement and fees of the Depositary as set forth in Clause 10.1 of the Deposit Agreement and Condition 19, the Depositary will (i) adjust its records for the number of GDRs issued in respect of the Shares so deposited, (ii) notify the Common Depositary to increase the number of GDRs evidenced by a Master GDR Certificate, and (iii) make delivery of the GDRs so issued to the applicable Euroclear Participant or Clearstream Participant specified in applicable order received for such purpose.
- C. Subject to the limitations set forth in the Deposit Agreement and applicable law, the Depositary may (but is not required to) issue GDRs prior to the delivery to it of Shares in respect of which such GDRs are to be issued against evidence to receive rights from the Company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares) in the form of a written blanket or specific guarantee of ownership furnished by the Company (or any agent of the Company involved for the Company in the maintenance or ownership or transactions records for the Shares).
- D. Any further GDRs issued pursuant to Condition 1(A) which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will, subject to Clause 3.14 of the Deposit Agreement be represented by a separate master partial entitlement GDR certificate (each a “Master Partial Entitlement GDR Certificate”). Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR Certificate (by increasing the total number of GDRs evidenced by the relevant Master GDR Certificate or by the number of such further GDRs, as applicable).
- E. Subject to the further terms and provisions of the Deposit Agreement, Citibank, N.A., its agents and affiliates, on their own behalf, may own and deal in any class of securities

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

of the Company and its affiliates and in GDRs. In its capacity as Depositary, the Depositary shall not lend Shares or GDRs.

- F. Any person delivering Shares for deposit under the Deposit Agreement and Condition 1 and any Holder or Beneficial Owner may be required and will be deemed to accept, by virtue of being a Holder or a Beneficial Owner, that, from time to time, it will be required to furnish the Depositary or the Custodian with such proof, certificates and representations and warranties as to matters of fact, including without limitation the citizenship and residence of the depositor, taxpayer status, payment of all applicable taxes or governmental charges, exchange control approvals, legal or beneficial ownership of GDRs and Deposited Property, compliance with all applicable laws, the terms of the Deposit Agreement, the Conditions and the provisions of, or governing, the Deposited Property and the identity and genuineness of any signature on any of the supporting instruments or other documents, and with such further documents and information as the Depositary may deem necessary or appropriate for the administration or implementation of the Deposit Agreement and the Conditions. The Depositary, the Registrar or the Custodian may withhold acceptance of Shares for deposit, withhold delivery or registration of issuance or transfer of all or part of any GDR Certificate, withhold adjustment of the Master GDR Certificate to reflect increases in Shares represented thereby or withhold the distribution or sale of any dividend or distribution of rights or of the net proceeds of the sale thereof or the delivery of any Deposited Property, until such proof or other information is filed or such certifications are executed, or such representations are made or such other documentation or information is provided in each case to the satisfaction of the Depositary, the Registrar or the Custodian.
- G. Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary shall not be required to accept for deposit or maintain on deposit in its account maintained by the Custodian (a) any fractional Shares or fractional Deposited Property, or (b) any number of Shares or Deposited Property which, upon application of the ratio of GDRs to Shares or Deposited Property, as the case may be, would give rise to fractional GDRs. No Share shall be accepted for deposit unless accompanied by evidence, if any is required by the Depositary or the Custodian, that is reasonably satisfactory to the Depositary or the Custodian that all conditions for such deposit have been satisfied by the person depositing such Shares under the laws and regulations of the PRC and any necessary approval has been granted by any applicable governmental body in the PRC (if any), including, without limitation, if applicable, any regulator of currency exchange.
- H. Each person depositing Shares under the Deposit Agreement and the Conditions shall be deemed thereby to represent and warrant that (i) such Shares (and the certificates therefor) are duly authorised, validly issued, fully paid, nonassessable and legally obtained by such person, (ii) all pre-emptive (and similar) rights with respect to such Shares have been validly waived or exercised, (iii) the person making such deposit is duly authorised so to do, (iv) the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, (v) the Shares presented for deposit have not been stripped of any rights or entitlements, and (vi) the Shares are not, and the GDRs will not be, “restricted securities” (as defined in Rule 144(a)(3) under the Securities Act). Such representations and warranties shall survive

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

the deposit and withdrawal of Shares and the issuance and cancellation of GDRs in respect thereof and the transfer of such GDRs. If any such representations or warranties are false in any way, the Company and the Depositary shall be authorised, at the cost and expense of the person depositing Shares, to take any and all actions necessary to correct the consequences thereof.

Each person depositing Shares, taking delivery of or transferring GDRs or any beneficial interest therein, or surrendering GDRs or any beneficial interest therein and withdrawing Shares under the Deposit Agreement and the Conditions shall be deemed thereby to acknowledge that the GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act, and may not be offered, sold, pledged or otherwise transferred except in accordance with the restrictions on transfer set forth in the applicable Securities Act Legend, and such person shall be deemed thereby to represent and warrant that such deposit, transfer or surrender or withdrawal complies with the foregoing restrictions. Such representations and warranties shall survive any such deposit, taking delivery of, transfer, surrender or withdrawal of the Shares or the GDRs or any beneficial interest therein.

2. Withdrawal of Deposited Property

- A. Subject to the terms and provisions of the Deposit Agreement, the Conditions, the procedures of the CSDC and applicable law, any Holder may request withdrawal of the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the principal office of the Depositary accompanied by:
- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn or evidence of the electronic transfer thereof to be delivered to or upon the order in writing of, the person or persons designated in such order;
 - (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under the Conditions or the Deposit Agreement including, but not limited to the fees of the Depositary set forth in Clause 10.1 of the Deposit Agreement and Condition 19; and
 - (iii) (x) surrender of a GDR Certificate at the Principal New York Office or Principal London Office, if Euroclear or Clearstream book-entry settlement system is not then available for GDRs, or (y) receipt by the Depositary at the Principal New York Office of instructions from Euroclear or Clearstream, or a Euroclear Participant or Clearstream Participant or their respective nominees, on behalf of any Beneficial Owner together with a corresponding credit to the Depositary's account at Euroclear or Clearstream for the GDRs so surrendered, if the book-entry settlement system is then available for GDRs, in either case for the purpose of withdrawal of the Deposited Property represented thereby.
- B. Withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- C. Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition 2, the Depositary will direct the

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

Custodian, within a reasonable time after receiving such direction from such Holder, to deliver at its office, to, or to the order in writing of, the person(s) designated in the accompanying order:

- (i) a certificate for, or other appropriate instrument of title to, or evidence of book-entry transfer of, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid or evidence of the electronic transfer of such other Deposited Property;

provided that the Depositary:

- (x) may make delivery of (a) any cash dividends or cash distributions or (b) any proceeds from the sale of any distributions of Shares or rights which are held by the Depositary in respect of the Deposited Property represented by the GDRs surrendered for cancellation and withdrawal; and
- (y) at the request, risk and expense of any Holder surrendering a GDR for cancellation and withdrawal, will direct the Custodian to forward any cash or other property (other than securities) held by the Custodian in respect of the Deposited Property represented by such GDRs to the Depositary,

in each case at the Principal New York Office or the Principal London Office (if permitted by applicable law from time to time).

- D. Delivery by the Depositary and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- E. If any GDR surrendered and cancelled represents fractional entitlements in Deposited Shares, the Depositary shall cause the appropriate whole number of Deposited Shares to be withdrawn and delivered in accordance with the terms of the Deposit Agreement and this Condition 2 and shall, at the discretion of the Depositary, either (i) issue and deliver to the person surrendering such GDR a new GDR representing any remaining fractional Share, or (ii) sell or cause to be sold the fractional Share represented by the GDR surrendered and remit proceeds of such sale (net of (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes withheld) to the person surrendering the GDR.

3. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The issuance and delivery of GDRs against deposits of Shares generally or deposits of particular Shares may be suspended or withheld, or the registration of transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended or refused, during any period when the transfer books of the Depositary, the

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

Company, a registrar of GDRs or any registrar of Shares are closed, or if any such action is deemed necessary or advisable by the Company or the Depositary in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, an applicable court order, or under any provision of the Deposit Agreement, the Conditions, or the provisions of or governing the Deposited Property, or any meeting of shareholders of the Company or for any other reason. The Depositary may restrict the transfer of Deposited Shares where the Company notifies the Depositary in writing that such transfer would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Articles of Association or would otherwise violate any applicable laws.

Notwithstanding any provision of the Deposit Agreement, the Conditions or any GDR Certificate to the contrary, Holders and Beneficial Owners are entitled to surrender outstanding GDRs to withdraw the Deposited Shares at any time subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting or the payment of dividends, (ii) the payment of fees, taxes and similar charges, (iii) compliance with any laws or governmental regulations or an applicable court order relating to the GDRs or to the withdrawal of the Deposited Shares.

4. Transfer and Ownership

A. GDRs are to be issued in registered form. Title to the GDRs passes upon registration in the records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

The Depositary will maintain Holder records, including a register of Holders, at its principal office in New York.

For a description of the restrictions on the transfer of the GDRs see "Selling Restrictions and Transfer Restrictions".

B. Notwithstanding any other provision of the Deposit Agreement or the Conditions, each Holder and Beneficial Owner, by virtue of their ownership of any GDR or any Deposited Property, shall be deemed thereby to agree to comply with requests from the Company or the Depositary from time to time pursuant to PRC law and any stock exchange on which the Shares are, or may be registered, traded or listed, or the Articles of Association, which are made to provide information, *inter alia*, as to the capacity in which such Holder or former Holder, Beneficial Owner or former Beneficial Owner holds or held, owns or owned a beneficial ownership interest in GDRs (and Deposited Property, as the case may be) and regarding the identity of any other person interested in such GDRs (and Deposited Property), the nature of such interest and various related matters, whether or not they are Holders and/or Beneficial Owners at the time of such request.

C. Applicable laws and regulations may require holders and beneficial owners of Shares, including the Holders and Beneficial Owners of GDRs, to satisfy reporting requirements

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

or obtain regulatory approvals in certain circumstances. Holders and Beneficial Owners of GDRs are solely responsible for complying with such reporting requirements and obtaining such approvals. By virtue of their ownership of any GDR or any Deposited Property, each Holder and Beneficial Owner shall be deemed thereby to agree to file such reports and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

5. Cash Distributions

Whenever the Depositary receives, or receives confirmation from the Custodian of the receipt from the Company of, any cash dividend or other cash distribution on or in respect of the Deposited Shares or receipt of proceeds from the sale of any Shares, rights, securities or other entitlements under the terms of the Deposit Agreement or the Conditions, the Depositary shall, if at the time of receipt thereof any amounts received in Foreign Currency can in the judgement of the Depositary (pursuant to Condition 11) be converted on a practicable basis into Dollars transferable to the U.S., promptly convert, or cause to be converted, such dividends, distribution or proceeds into Dollars in the terms described in Condition 11 and will promptly distribute the amount thus received (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes withheld) to the Holders entitled thereto. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Holder a fraction of one cent, and any balance not so distributable shall be held by the Depositary (without liability for interest thereon) and shall be added to and become part of the next sum received by the Depositary for distribution to Holders of GDRs then outstanding at the time of the next distribution. If the Company, the Custodian or the Depositary is required to withhold and does withhold from any cash dividend or other cash distribution in respect of any Deposited Property an amount on account of taxes, duties or other governmental charges, the amount distributed to Holders in respect of the GDRs representing such Deposited Property shall be reduced accordingly. Such withheld amounts shall be forwarded by the Company, the Custodian or the Depositary to the relevant governmental authority. Evidence of payment thereof by the Company shall be forwarded by the Company to the Depositary upon request.

6. Distributions of Shares

If any distribution upon any Deposited Property consists of a dividend in, or free distribution of, Shares, the Company shall cause such Shares to be deposited via the Custodian and, if applicable, registered in the name of the Depositary, the Custodian or any of their nominees, as the case may be. Upon receipt of confirmation of such deposit from the Custodian, the Depositary shall establish the GDR Record Date upon the terms described in Condition 10 and shall, subject to the terms of the Deposit Agreement and the Conditions, either (i) distribute to the Holders as of the GDR Record Date in proportion to the number of GDRs held as at the GDR Record Date, additional GDRs, which represent the aggregate number of Shares received as such dividend or free distribution, subject to the other terms of the Deposit Agreement and Conditions and net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes, by either (x) if GDRs are not available in book-entry form, issuing

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

additional GDR Certificates for an aggregate number of GDRs representing the number of Shares received as such dividend or free distribution, or (y) if GDRs are available in book-entry form, reflecting on the records of the Depositary such increase in the aggregate number of GDRs representing such Shares and give notice to the Common Depositary of the related increase in the number of GDRs evidenced by the Master GDR Certificate, or (ii) if additional GDRs are not so distributed, each GDR issued and outstanding after the GDR Record Date shall, to the extent permissible by law, thenceforth also represent rights and interests in the additional Shares distributed upon the Deposited Property represented thereby, net of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes. In lieu of delivering fractional GDRs, the Depositary shall sell the number of Shares represented by the aggregate of such fractions and distribute the net proceeds of such sale upon the terms described in Condition 5. In the event that the Depositary determines that any distribution in Shares would violate applicable law, is not operationally practicable, is subject to any tax or other governmental charges which the Depositary is obligated to withhold, or if the Company, in the fulfilment of its obligations under Clause 7.1.4 of the Deposit Agreement, has furnished an opinion of U.S. counsel determining that the distribution to Holders of the Shares and the GDRs representing such Shares must be registered under the Securities Act or other laws in order to be distributed to Holders (and no such registration statement has been declared effective), the Depositary may dispose of all or a portion of such Shares in such amounts and in such manner, including by public or private sale, as the Depositary deems necessary and practicable, and the Depositary shall distribute the net proceeds of any such sale, after deduction of (a) fees and charges of, and expenses incurred by, the Depositary and (b) taxes, to Holders entitled thereto upon the terms described in Condition 5. The Depositary shall hold and/or distribute any unsold balance of such property in accordance with the provisions of the Deposit Agreement and the Conditions.

7. Distributions Other than Cash or Shares

Whenever the Depositary receives from the Company property other than cash, Shares or rights to purchase additional Shares and receives a notice from the Company indicating that the Company wishes such distribution to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall distribute the property so received to the Holders of record as at the GDR Record Date set in accordance with Condition 10, in proportion to the number of GDRs held by them respectively and in such manner as the Depositary may deem practicable for accomplishing such distribution (i) upon receipt of payment or net of the applicable fees and charges of, and expenses incurred by, the Depositary, and (ii) net of any taxes withheld. The Depositary may dispose of all or a portion of the property so distributed and deposited, in such amounts and in such manner (including public or private sale) as the Depositary may deem practicable or necessary to satisfy any taxes (including applicable interest and penalties) or other governmental charges applicable to the distribution. If (i) the Company does not request the Depositary to make such distribution to Holders or requests not to make such distribution to Holders, (ii) the Depositary does not receive documentation within the terms of Clause 7.1.4 of the Deposit Agreement, or (iii) the Depositary determines (in accordance with Clause 5.1 of the Deposit Agreement) that all or a portion of such distribution is not lawful or is not reasonably practicable, the Depositary shall sell or cause such property to be sold in a public or private sale, at such place or places and upon such terms as it may deem practicable and shall (x) cause

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

the proceeds of such sale, if any, to be converted into Dollars in accordance with Condition 11, and (y) distribute the proceeds of such conversion received by the Depositary (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) to the Holders as of the GDR Record Date upon the terms of Condition 5. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

8. Rights Issues

- A. Whenever the Company intends to distribute to the holders of the Deposited Property rights to subscribe for additional Shares, and provides a notice to the Depositary indicating that the Company wishes such rights to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall (x) establish a GDR Record Date (upon the terms described in Condition 10), (y) establish procedures to distribute such rights (by means of warrants or otherwise) and/or to enable the Holders to exercise the rights (upon payment of (a) the applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes), and (z) issue and deliver GDRs upon the valid exercise of such rights. The Company shall assist the Depositary to the extent necessary and reasonably practicable in establishing such procedures.

Nothing herein shall obligate the Depositary to make available to the Holders a method to exercise such rights to subscribe for Shares (rather than for GDRs).

- B. In the event that (i) the Depositary fails to receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement or determines that it is not lawful or not reasonably practicable to make the rights available to Holders or (ii) the Company requests that the rights not be made available to Holders of GDRs or (iii) any rights made available are not exercised and appear to be about to lapse, the Depositary shall determine whether it is lawful and reasonably practicable to sell such rights, in a riskless principal capacity, at such place and upon such terms (including public and private sale) as it may deem practicable. The Company shall assist the Depositary to the extent necessary and reasonably practicable to determine such legality and practicability. If the Depositary sells such rights, the Depositary shall, upon such sale, (x) cause the proceeds of such sale, if any, to be converted into Dollars upon the terms described in Condition 11, and (y) distribute the proceeds of such sale (net of (a) applicable fees and charges of, and expenses incurred by, the Depositary and (b) taxes) upon the terms set forth in Condition 5.

If the Depositary is unable to make any rights available to Holders upon the terms described in the Deposit Agreement or to arrange for the sale of the rights upon the terms described above, the Depositary shall allow such rights to lapse.

The Depositary shall not be responsible for (i) any failure to determine that it may be lawful or practicable to make such rights available to Holders in general or any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the Holders on behalf of the Company in connection with the rights distribution.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

- C. Notwithstanding anything to the contrary in the Deposit Agreement or this Condition 8, if registration (under the Securities Act or any other applicable law) of the rights or the securities to which any rights relate may be required in order for the Company to offer such rights or such securities to Holders and to sell the securities represented by such rights, the Depositary will not distribute such rights to the Holders unless and until a registration statement under the Securities Act covering such offering is in effect. In the event that the Company, the Depositary or the Custodian shall be required to withhold and does withhold from any distribution of rights an amount on account of taxes or other governmental charges, the amount distributed to the Holders of GDRs representing such Deposited Property shall be reduced accordingly. In the event that the Depositary determines that any distribution of Deposited Property or rights to subscribe therefor is subject to any tax or other governmental charges which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such Deposited Property or rights to subscribe therefor in such amounts and in such manner, including by public or private sale, as the Depositary deems necessary and practicable to pay any such taxes or charges. There can be no assurance that Holders generally, or any Holder in particular, will be given the opportunity to exercise such rights on the same terms and conditions as the holders of Deposited Property or to exercise such rights. Nothing in the Deposit Agreement or this Condition 8 shall obligate the Company to file any registration statement in respect of any rights or Deposited Property or other securities to be acquired upon the exercise of such rights.

9. Redemption

If the Company intends to exercise any right of redemption in respect of any of the Deposited Property, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.2 of the Deposit Agreement, the Depositary shall send to each Holder a notice in accordance with Condition 25 setting forth the intended exercise by the Company of the redemption rights and any other particulars set forth in the Company's notice to the Depositary. The Depositary shall instruct the Custodian to present to the Company the Deposited Property in respect of which redemption rights are being exercised against payment of the applicable redemption price. Upon receipt of confirmation from the Custodian that the redemption has taken place and that funds representing the redemption price have been received, the Depositary shall convert, transfer, and distribute the proceeds (net of applicable (a) fees and charges of, and the expenses incurred by, the Depositary, and (b) taxes), retire GDRs and cancel GDRs upon delivery of such GDRs by Holders thereof and on the terms set forth in the applicable Conditions. If less than all outstanding Deposited Property is redeemed, the GDRs to be retired will be selected by lot or on a pro rata basis, as may be determined by the Depositary. The redemption price per GDR shall be the per share amount received by the Depositary upon the redemption of the Deposited Shares represented by GDRs (subject to the terms of the Deposit Agreement and the applicable fees and charges of, and expenses incurred by, the Depositary, and taxes) multiplied by the number of Deposited Shares represented by each GDR redeemed.

10. GDR Record Dates

Whenever the Depositary shall receive notice of the fixing of a record date by the Company for the determination of holders of Deposited Property entitled to receive any distribution (whether

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

in cash, Shares, rights or other distribution), or whenever, for any reason, the Depositary causes a change in the number of Deposited Shares that are represented by each GDR, or whenever the Depositary shall receive notice of any meeting of, or solicitation of consents or proxies of, holders of Shares or other Deposited Property, or whenever the Depositary finds it necessary or convenient in connection with the giving of any notice, solicitation of any consent or any other matter, the Depositary shall fix a record date (the “GDR Record Date”) for the determination of the Holders of GDRs who shall be entitled to receive such dividend or distribution, to give instructions for the exercise of voting rights at any such meeting, or to give or withhold such consent, or to receive such notice or solicitation or to otherwise take action, or to exercise the rights of Holders with respect to such changed number of Deposited Shares represented by each GDR. The Depositary shall make reasonable efforts to establish the GDR Record Date as closely as practicable to the applicable record date for the Deposited Property (if any) set by the Company in the PRC. Subject to applicable law and the provisions of the Deposit Agreement and Conditions, only the Holders of GDRs at the close of business in New York on such GDR Record Date shall be entitled to receive such distribution, to give such voting instructions, to receive such notice or solicitation, or otherwise take action. If the GDR Record Date is different from the applicable record date for the Shares set by the Company in the PRC, the Depositary shall suspend generally the issuance and delivery of GDRs against deposits of Shares and the registration of transfers of GDRs during the period in between the GDR Record Date and the record date for the Shares.

11. Conversion of Foreign Currency

Whenever the Depositary or the Custodian shall receive any Foreign Currency by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the Foreign Currency so received can in the judgement of the Depositary be converted on a practicable basis into Dollars transferable to the US and distributed to the Holders entitled thereto, the Depositary shall convert or cause to be converted by sale or in any other manner that it may determine, the Foreign Currency so received into Dollars and shall distribute such Dollars (net of applicable fees, any reasonable and customary expenses incurred on behalf of Holders in complying with currency exchange control or other governmental requirements) in accordance with the terms of the applicable Conditions. If the Depositary shall have distributed warrants or other instruments that entitle the holders thereof to such Dollars, the Depositary shall distribute such Dollars to the holders of such warrants and/or instruments upon surrender thereof for cancellation, in either case without liability for interest thereon. Such distribution shall be made upon an averaged or other practicable basis without regard to any distinctions among Holders on account of any application of exchange restrictions or otherwise. If such conversion or distribution generally or with regard to a particular Holder can be effected only with the approval or licence of any government or agency thereof, the Depositary shall have the authority, with the assistance of the Company to the extent necessary and reasonably practicable, to file such application, for such approval or licence, if any, as it may consider desirable. In no event, however, shall the Depositary be obligated to make such a filing. If at any time the Depositary shall determine that in its judgement the conversion of any currency other than Dollars and the transfer and distribution of proceeds of such conversion received by the Depositary is not practicable or lawful, or if any approval or licence of any government or agency thereof which is required for such conversion, transfer or distribution is denied or, in the opinion of the Depositary, is not obtainable at a reasonable cost, or if any such approval or licence is not obtained within a

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

reasonable period as determined by the Depositary, the Depositary may in its discretion (i) make such conversion and distribution in Dollars to the Holders for whom such conversion, transfer and distribution is lawful and practicable, (ii) distribute the Foreign Currency (or an appropriate document evidencing the right to receive such Foreign Currency) to Holders for whom this is lawful and practicable, and (iii) hold (or cause the Custodian to hold) such Foreign Currency (without liability for interest thereon) for the respective accounts of the Holders entitled to receive the same.

12. Distribution of any Payments

Any distribution of cash under Condition 5, 6, 7, 8, 9, 13 or 14 will be made by the Depositary to those Holders who are Holders of record on the GDR Record Date established by the Depositary in accordance with Condition 10 for that purpose and, distributions will be made in Dollars subject to Condition 11 by cheque drawn upon a bank in New York City or, in the case of the relevant Master GDR Certificate, according to usual practice between the Depositary and Euroclear and Clearstream, as the case may be. The Depositary may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the related Deposited Property.

13. Capital Reorganisation

Upon any change in nominal or par value, split-up, cancellation, consolidation or any other reclassification of Deposited Property, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Deposited Property shall, to the extent permitted by law, be treated as new Deposited Property under the Deposit Agreement and the Conditions, and the GDRs shall, subject to the terms of the Deposit Agreement, the Conditions and applicable law, evidence GDRs representing the right to receive such replacement securities. The Depositary may, with the Company's approval, and shall, if the Company shall so request, subject to the terms of the Deposit Agreement (including, without limitation, with respect to (a) the applicable fees and charges of, and expenses incurred by, the Depositary, and (b) taxes) and the Conditions, and subject to the receipt by the Depositary of an opinion of counsel reasonably satisfactory to the Depositary (obtained at the expense of the Company) that such distributions are not in violation of any applicable laws or regulations, execute and deliver additional GDRs or make appropriate adjustments in its records, as in the case of a stock dividend on the Shares, or call for the surrender of outstanding GDRs to be exchanged for new GDRs, in either case, as well as in the event of newly deposited Shares, with necessary modifications to the form of GDR attached to the Deposit Agreement specifically describing such new Deposited Property or corporate change. Notwithstanding the foregoing, in the event that any security so received may not be lawfully distributed to some or all Holders, the Depositary may, with the Company's approval, and shall if the Company requests, subject to the receipt by the Depositary of an opinion of counsel reasonably satisfactory to the Depositary (obtained at the expense of the Company) that such action is not in violation of any applicable laws or regulations, sell such securities at public or private sale, at such place or places and upon such terms as it may deem proper, and may allocate the net proceeds of such sales (net of

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

(a) applicable fees and charges of, and expenses incurred by, the Depositary, and (b) taxes) for the account of the Holders otherwise entitled to such securities upon an averaged or other practicable basis without regard to any distinctions among such Holders and distribute the net proceeds so allocated to the extent practicable as in the case of a distribution received in cash pursuant to Condition 5. The Depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to Holders in general or to any Holder in particular, (ii) any foreign exchange exposure or loss incurred in connection with such sale, or (iii) any liability to the purchaser of such securities.

14. Elective Distributions

Wherever the Company intends to distribute a dividend payable at the election of the holders of Shares in cash or in additional Shares and provides a notice to the Depositary indicating that the Company wishes such elective distribution to be made available to Holders of GDRs, upon receipt of satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement and after making the requisite determinations set forth in Clause 5.1 of the Deposit Agreement, the Depositary shall make such elective distribution available to Holders. If the Depositary fails to receive satisfactory documentation within the terms of Clause 7.1.4 of the Deposit Agreement or determines that it is not lawful or not reasonably practicable to make the elective distribution available to Holders of GDRs, or if the Company requests that such elective distribution not be made available to Holders of GDRs, the Depositary shall, to the extent permitted by law, distribute to the Holders, on the basis of the same determination as is made in the PRC in respect of the Shares for which no election is made, either (x) cash upon the terms described in Condition 5, or (y) additional GDRs representing such additional Shares upon the terms described in Condition 6. If the above conditions are satisfied, the Depositary shall establish a GDR Record Date in accordance with Condition 10 and establish procedures to enable Holders to elect the receipt of the proposed dividend in cash or in additional GDRs. The Company shall assist the Depositary in establishing such procedures to the extent necessary and reasonably practicable. If a Holder elects to receive the proposed dividend (x) in cash, the dividend shall be distributed upon the terms described in Condition 5, or (y) in GDRs, the dividend shall be distributed upon the terms described in Condition 6. Nothing in the Deposit Agreement or this Condition 14 shall obligate the Depositary to make available to Holders a method to receive the elective dividend in Shares (rather than GDRs). There can be no assurance that Holders and Beneficial Owners generally, or any Holder or Beneficial Owner in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Deposited Property.

15. Taxation and Applicable Laws

A. Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Property will be subject to deduction of PRC and other withholding taxes, if any, at the applicable rates, and notwithstanding any other provision of the Deposit Agreement or the Conditions, the Depositary and the Custodian will be entitled, subject to applicable law, to deduct from any cash dividend or other cash distribution which either of them receives from the Company such amount as is necessary in order to provide for any tax, charge, fee or other amount that is, or could become, payable by or on behalf of the Depositary to fiscal or other governmental authority on account of receiving such cash dividend or other cash distribution.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The Holder or Beneficial Owner of any GDR or any Deposited Property shall be deemed thereby to accept (by virtue of his ownership or deposit, as the case may be) that, in the event that any tax or other governmental charge shall become payable with respect to any GDR, Deposited Property or GDR Certificate, such tax or other governmental charge shall be payable by the Holder and Beneficial Owner to the Depositary. The Custodian may refuse the deposit of Shares and the Depositary may refuse to issue or deliver GDRs, to register the transfer, split-up or combination of GDR Certificates and the withdrawal of Deposited Property until payment in full of such tax, charge, penalty or interest is received. The Depositary may, for the account of the Holder or Beneficial Owner, discharge the same out of the proceeds of sale, subject to PRC law and regulations, of an appropriate number of Deposited Shares or other Deposited Property with the Holder and Beneficial Owner remaining liable for any deficiency and being entitled to distribution of any surplus. Any such request shall be made by giving notice pursuant to Condition 25.

By virtue of its ownership of any GDR or Deposited Property, each Holder and Beneficial Owner shall be deemed to agree to indemnify the Depositary, the Company, the Custodian, and any of their agents, officers, employees and Affiliates for, and to hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for such Holder or Beneficial Owner. The obligations of Holders and Beneficial Owners under this Condition 15A shall survive any transfer of GDRs, any cancellation of GDRs and withdrawal of Deposited Shares, and the termination of the Deposit Agreement.

- B. If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in the PRC in order for the Depositary to receive from the Company Shares to be deposited under the Conditions or in order for Shares, other securities or other property to be distributed under Condition 5, 6, 7, 13 or 14 or to be subscribed under Condition 8, the Depositary shall request that the Company apply for or assist in the applying for, as the case may be, such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement to take such action as may be required and to the extent reasonably practicable to obtain or file or assist in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property with respect to which such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent or permit or to file any such report.

16. Voting Rights

- A. Holders of GDRs will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any meeting of holders of Shares of the Company at which holders of Shares or other Deposited Property are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 16.

As soon as practicable after receipt from the Company of any such notice, the Depositary will fix the GDR Record Date in respect of such meeting or solicitation of

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

consent or proxy in accordance with Condition 10. The Depositary shall, if requested by the Company in writing in a timely manner in accordance with Clause 5.3 of the Deposit Agreement and at the Company's expense and provided no U.S., English or PRC legal prohibitions exist, distribute to Holders as at the GDR Record Date: (a) such notice of meeting or solicitation of consent or proxy as well as any other material provided by the Company to the Depositary in connection therewith, (b) a statement that the Holders at the close of business in New York on the GDR Record Date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Conditions, the Articles of Association and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given.

- B. Voting instructions may be given to the Depositary only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Subject to applicable law, the provisions of the Deposit Agreement, the Conditions, the Articles of Association and the provisions of or governing the Deposited Property, if the Depositary has received voting instructions from a Holder as at the GDR Record Date to vote the Deposited Property on or before the date specified by the Depositary, the Depositary shall endeavour, in so far as is practicable and permitted by PRC law and practice, to vote or cause the Custodian to vote the Shares and/or other Deposited Property represented by such Holder's GDRs for which timely and valid voting instructions have been received in the manner so instructed by such Holders.
- C. Neither the Depositary nor the Custodian shall, under any circumstances exercise any discretion as to voting and neither the Depositary nor the Custodian shall vote, attempt to exercise the right to vote, or in any way make use of the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with such instructions from Holders. If the Depositary timely receives voting instructions from a Holder which fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder (unless otherwise specified in the notice distributed to Holders) to have instructed the Depositary to vote in favour of the items set forth in such voting instructions. Notwithstanding anything else contained herein, the Depositary shall, if so requested in writing by the Company, represent all Deposited Property (whether or not voting instructions have been received in respect of such Deposited Property from Holders as at the GDR Record Date) for the sole purpose of establishing quorum at a meeting of shareholders.
- D. There can be no assurance that Holders generally or any Holder in particular will receive the notice described above with sufficient time to enable the Holder to return voting instructions to the Depositary in a timely manner.

By continuing to hold GDRs, all Holders and Beneficial Owners shall be deemed to have agreed to the provisions of this Condition 16 as it may be amended from time to time in order to comply with applicable PRC law.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

A valid corporate decision of the Company will bind the Depositary (as registered owner of the Shares) and the Holders and Beneficial Owners of GDRs shall be deemed to agree to being bound by such a corporate decision of the Company.

- E. Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S., English or PRC laws. The Company agrees to take any and all actions reasonably necessary to enable Holders and Beneficial Owners to exercise the voting rights accruing to the Deposited Property and to deliver to the Depositary an opinion of U.S., English and/or PRC counsel (obtained at the expense of the Company), if reasonably requested by the Depositary, addressing any actions requested to be taken.

17. Liability

- A. Neither the Depositary nor the Company shall be obligated to do or perform any act which is inconsistent with the provisions of the Deposit Agreement or the Conditions or shall incur any liability (i) if the Depositary or the Company shall be prevented or forbidden from, or delayed in, doing any act or thing required by the terms of the Deposit Agreement or the Conditions, by reason of any provision of any present or future law or regulation of the U.S., England, the PRC or any other country, or of any relevant governmental or regulatory authority or stock exchange, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or on account of potential criminal or civil penalties or restraint, or by reason of any provision, present or future, of the Articles of Association or any provision of or governing any Deposited Property or by reason of any other circumstances beyond their control (including, without limitation, acts of God or war, nationalisation, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure), (ii) by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement, the Conditions or in the Articles of Association or provisions of or governing Deposited Property, (iii) for any action or inaction in reliance upon the advice or information from legal counsel, accountants, any person presenting Shares for deposit, any Holder, any Beneficial Owner or authorised representative thereof, or any other person believed by it in good faith to be competent to give such advice or information, but only insofar as the terms of this subsection (iii) are not prohibited by applicable law, (iv) for the inability by a Holder or Beneficial Owner to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit Agreement or the Conditions, made available to Holders of GDRs or (v) for any consequential or punitive damages for any breach of the terms of the Deposit Agreement or the Conditions.
- B. In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the Beneficial Owners.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

- C. The Depositary, its controlling persons, its agents, any Custodian and the Company, its controlling persons and its agents may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented by the proper party or parties (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- D. No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement or the Conditions.
- E. Without limitation of the foregoing, neither the Depositary, nor the Company, nor any of their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Property or in respect of the GDRs, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).
- F. The Depositary has no obligation under the Deposit Agreement to take steps to monitor, supervise or enforce the observance and performance by the Company of its obligations under the Deposit Agreement or the Conditions.
- G. Neither the Depositary, the Custodian nor any of their agents, officers, directors or employees shall be liable (except by reason of its own negligence, bad faith or wilful default or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- H. The Depositary and each of its agents (and any holding, subsidiary or associated company of the Depositary) may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- I. The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 6, 7, 8, 13 or 14 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own negligence, bad faith or wilful default or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be legally permissible or otherwise possible.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

- J. The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder, Beneficial Owner or person with an interest in a GDR as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- K. In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement or the Conditions, the Depositary shall not, except as otherwise expressly provided in Condition 24, be obliged to have regard to the consequence thereof for the Holders, Beneficial Owners, a person with an interest in a GDR or any other person.
- L. Notwithstanding anything else contained in the Deposit Agreement or the Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any law, directive or regulation.
- M. The Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable PRC law. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issue of GDRs if notified by the Company, or if the Depositary becomes aware of the fact that such transfer or issue would be in violation of the limitations set forth above or any other applicable laws.
- N. The Depositary may call for, and shall be at liberty to accept as sufficient, evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company, by the Board of Directors of the Company or by a person duly authorised by the Board of Directors of the Company, or such other certificate from persons which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- O. The Depositary and its agents shall not be liable for any failure to carry out any instructions to vote any of the Deposited Property, or for the manner in which any vote is cast or the effect of any vote (other than where such failure or action is a result of its own negligence, bad faith or wilful default or is not in accordance with the terms of the Deposit Agreement and the Conditions). The Depositary shall not incur any liability (save in the case of its own negligence, bad faith or wilful default) for any failure to determine that any distribution or action may be lawful or reasonably practicable, for the content of any information submitted to it by the Company for distribution to the Holders or for any inaccuracy of any translation thereof, for any investment risk associated with acquiring an interest in the Deposited Property, for the validity or worth of the Deposited Property, for the creditworthiness of any third party, for any tax consequences that may result from the ownership of GDRs, Shares or Deposited Property, for allowing any rights to lapse upon the terms of the Deposit Agreement and the Conditions, for the failure or timeliness of any notice from the Company.
- P. No provision of the Deposit Agreement or the Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

- Q. The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a lawyer or other person, including obtaining an opinion of legal advisers in form and substance reasonably satisfactory to it, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. Save for the failure on the part of the Depositary to exercise reasonable care in the selection or retention of any such agent, the Depositary will not be liable to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.
- R. None of the Depositary, the Custodian, the Company or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of Holders or Beneficial Owners to satisfy reporting requirements or obtain regulatory approvals under applicable laws and regulations which shall be the sole responsibility of the Holders and Beneficial Owners as described in Condition 4C.
- S. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence, bad faith or wilful default while it acted as Depositary.
- T. The Depositary shall not be liable for any acts or omissions made by a predecessor depositary whether in connection with an act or omission of the Depositary or in connection with any matter arising wholly prior to the appointment of the Depositary or after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence, bad faith or wilful default while it acted as Depositary.

18. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the Principal New York Office.

19. GDR Fees and Charges

A. The following GDR fees are payable under the terms of the Deposit Agreement:

- (i) Issuance Fee: by any person for whom the GDRs are issued (i.e., an issuance upon a deposit of Shares, upon a change in the GDR(s)-to-Share(s) ratio, or for any other reason (excluding issuances as a result of distributions described in paragraph (iv) below), a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) issued under the terms of the Deposit Agreement and the Conditions;

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

- (ii) Cancellation Fee: by any person for whom GDRs are being cancelled (e.g., a cancellation of GDRs for delivery of Deposited Property, upon a change in the GDR(s)-to-Share(s) ratio, or for any other reason), a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) cancelled;
- (iii) Cash Distribution Fee: by any Holder of GDRs, a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) held for the distribution of cash dividends or other cash distributions (e.g., upon the sale of rights and other entitlements);
- (iv) Stock Distribution /Rights Exercise Fees: by any Holder of GDRs, a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) held for the distribution of GDRs pursuant to (a) stock dividends or other free stock distributions, or (b) an exercise of rights to purchase additional GDRs;
- (v) Other Distribution Fee: by any Holder of GDRs, a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) held for the distribution of securities other than GDRs or rights to purchase additional GDRs (e.g., spin-off shares); and
- (vi) Depository Services Fee: by any Holder of GDRs, a fee not in excess of U.S.\$5.00 per 100 GDRs (or fraction thereof) held on the applicable record date(s) established by the Depositary.

Certain of the GDR fees and charges (such as the Depository Services Fee) may become payable shortly after the closing of an offering of the GDRs.

In addition, the Company, Holders, Beneficial Owners, persons depositing Shares or withdrawing Deposited Property in connection with GDR issuances and cancellations, and persons for whom GDRs are issued or cancelled shall be responsible for the following GDR charges under the terms of the Deposit Agreement:

- (i) taxes (including applicable interest and penalties) and other governmental charges;
- (ii) such registration fees as may from time to time be in effect for the registration of Shares or other Deposited Property on the share register and applicable to transfers of Shares or other Deposited Property to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;
- (iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing Shares or withdrawing Deposited Property or of the Holders and Beneficial Owners of GDRs;
- (iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency;
- (v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to Shares, Deposited Property, GDRs and GDR Certificates; and
- (vi) the fees and expenses incurred by the Depositary, the Custodian or any nominee in connection with the servicing or delivery of Deposited Property.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

- B. Any other charges and expenses of the Depositary under the Deposit Agreement and the Conditions will be paid by the Company upon agreement between the Depositary and the Company. All GDR fees and charges may, at any time and from time to time, be changed by agreement between the Depositary and Company but, in the case of GDR fees and charges payable by Holders and Beneficial Owners, only in the manner contemplated by Condition 24. The Depositary shall provide, without charge, a copy of its latest GDR fee schedule to anyone upon request.
- C. GDR fees and charges payable for (i) the issuance of GDRs and (ii) the cancellation of GDRs will be payable by the person for whom the GDRs are so issued by the Depositary (in the case of GDR issuances) and by the person for whom GDRs are being cancelled (in the case of GDR cancellations). In the case of GDRs issued by the Depositary into Euroclear or Clearstream, the GDR issuance and cancellation fees and charges will be payable by the Euroclear Participant(s) or Clearstream Participant(s) receiving the GDRs from the Depositary or the Euroclear Participant(s) or Clearstream Participant(s) holding the GDRs being cancelled, as the case may be, on behalf of the Beneficial Owner(s) and will be charged by the Euroclear Participant(s) or Clearstream Participant(s) to the account(s) of the applicable Beneficial Owner(s) in accordance with the procedures and practices of the Euroclear Participant(s) or Clearstream Participant(s) as in effect at the time. GDR fees and charges in respect of distributions and the Depositary services fee are payable by Holders as at the applicable GDR Record Date established by the Depositary. In the case of distributions of cash, the amount of the applicable GDR fees and charges is deducted from the funds being distributed. In the case of (i) distributions other than cash and (ii) the Depositary services fee, the applicable Holders as at the GDR Record Date established by the Depositary will be invoiced for the amount of the GDR fees and charges, and such GDR fees and charges may be deducted from distributions made to Holders. For GDRs held through Euroclear or Clearstream, the GDR fees and charges for distributions other than cash and the Depositary services fee may be deducted from distributions made through Euroclear or Clearstream and may be charged to the Euroclear Participants or Clearstream Participants in accordance with the procedures and practices prescribed by Euroclear or Clearstream from time to time and the Euroclear Participants or Clearstream Participants in turn charge the amount of such GDR fees and charges to the Beneficial Owners for whom they hold GDRs.
- D. The Depositary may reimburse the Company for certain expenses incurred by the Company in respect of the Global Depositary Receipts programme established pursuant to the Deposit Agreement, by making available a portion of the GDR fees charged in respect of the GDR programme or otherwise, upon such terms and conditions as the Company and the Depositary may agree from time to time. The Company shall pay to the Depositary such fees and charges, and reimburse the Depositary for such out of pocket expenses, as the Depositary and the Company may agree from time to time. Responsibility for payment of such fees, charges and reimbursements may from time to time be changed by agreement between the Company and the Depositary. Unless otherwise agreed, the Depositary shall present its statement for such fees, charges and reimbursements to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

20. Listing

The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to obtain and thereafter maintain, so long as any GDR is outstanding, admission of trading for GDRs on the London Stock Exchange's main market for listed securities. For that purpose the Company will pay all fees and sign and deliver all undertakings required by the London Stock Exchange in connection therewith.

21. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold all Deposited Property in an account of the Depositary or for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement. The Custodian shall be responsible solely to the Depositary. Upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. Whenever the Depositary, in its sole discretion, determines that it is in the best interest of the Holders to do so, it may terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 25.

Citibank, N.A. may at any time act as Custodian of the Deposited Shares pursuant to the Deposit Agreement, in which case any reference to Custodian shall mean Citibank, N.A. solely in its capacity as Custodian pursuant to the Deposit Agreement. Notwithstanding anything contained in the Deposit Agreement or the Conditions, the Depositary shall not be obligated to give notice to the Company, any Holders of GDRs or any other Custodian of its acting as Custodian pursuant to the Deposit Agreement.

22. Resignation and Termination of Appointment of the Depositary

A. The Depositary may at any time resign as Depositary hereunder by written notice of resignation delivered to the Company, which resignation shall be effective on the earlier to occur of (i) the 90th day after delivery thereof to the Company, after which the Depositary shall be entitled to take the termination actions contemplated in Condition 23(A), and (ii) the appointment by the Company of a successor depositary and the acceptance by such successor depositary of such appointment.

The Depositary may at any time be removed by the Company by written notice of removal delivered to the Depositary, which removal shall be effective on the later to occur of (i) the 90th day after delivery thereof to the Company, after which the Depositary shall be entitled to take the termination actions contemplated in Condition 23(A), and (ii) the appointment by the Company of a successor depositary and the acceptance by such successor depositary of such appointment.

B. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary following the receipt of a notice of resignation from the Depositary or the giving of a notice of the termination of the appointment of the Depositary. Upon any such appointment and

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 25.

- C. Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

23. Termination of the Deposit Agreement

- A. The Company may at any time terminate the Deposit Agreement. Upon written direction of the Company, the Depositary shall provide notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination.

If ninety (90) days shall have expired after (i) the Depositary shall have delivered to the Company a written notice of its election to resign pursuant to Clause 11.1 of the Deposit Agreement and Condition 22(A) or (ii) the Company shall have delivered to the Depositary a written notice of the removal of the Depositary pursuant to Clause 11.1 of the Deposit Agreement and Condition 22(A) and, in either case, a successor depositary shall not have been appointed and accepted its appointment as provided in Clause 11.1 of the Deposit Agreement and Condition 22(B), the Depositary may terminate the Deposit Agreement by providing notice of such termination to the Holders of all GDR Certificates then outstanding at least thirty (30) days prior to the date fixed in such notice for such termination.

The date fixed for termination of the Deposit Agreement in any termination notice distributed by the Depositary to the Holders of GDRs is referred to as the “Termination Date”. Until the Termination Date, the Depositary shall continue to perform all of its obligations under the Deposit Agreement and the Conditions, and the Holders and Beneficial Owners will be entitled to all of their rights under the Deposit Agreement and the Conditions.

- B. If any GDRs shall remain outstanding after the Termination Date, the Registrar and the Depositary shall not, after the Termination Date, have any obligation to perform any further acts under the Deposit Agreement or the Conditions, except that the Depositary shall, subject, in each case, to the terms and conditions of the Deposit Agreement and the Conditions, continue to (i) collect dividends and other distributions pertaining to Deposited Property, (ii) sell securities and other property received in respect of Deposited Property, (iii) deliver Deposited Property, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any securities or other property, in exchange for GDRs surrendered to the Depositary (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreement and Condition 19), and (iv) take such actions as may be required under applicable law in connection with its role as Depositary under the Deposit Agreement.

At any time after the Termination Date, the Depositary may sell the Deposited Property then held under the Deposit Agreement and shall after such sale hold un-invested the

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

net proceeds of such sale, together with any other cash then held by it under the Deposit Agreement, in an un-segregated account and without liability for interest, for the pro-rata benefit of the Holders whose GDRs have not theretofore been surrendered. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and the Conditions except (i) to account for such net proceeds and other cash (after deducting or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the Holders and Beneficial Owners, in each case upon the terms set forth in Clause 10.1 of the Deposit Agreement and Condition 19), and (ii) as may be required at law in connection with the termination of the Deposit Agreement. After the Termination Date, the Company shall be discharged from all obligations under the Deposit Agreement and the Conditions, except for its obligations to the Depositary under Clause 10 of the Deposit Agreement and Condition 19. The obligations under the terms of the Deposit Agreement and the Conditions of Holders and Beneficial Owners of GDRs outstanding as at the Termination Date shall survive the Termination Date and shall be discharged only when the applicable GDRs are presented by their Holders to the Depositary for cancellation under the terms of the Deposit Agreement and the Conditions (except as specifically provided therein).

- C. Notwithstanding anything contained in the Deposit Agreement or any GDR, in connection with the termination of the Deposit Agreement, the Depositary may, independently and without the need for any action by the Company, make available to Holders of GDRs a means to withdraw the Deposited Shares represented by their GDRs and to direct the deposit of such Deposited Shares into an unsponsored global depositary receipts programme established by the Depositary, upon such terms and conditions as the Depositary may deem reasonably appropriate, subject however, in each case, to satisfaction of the requirements by the unsponsored global depositary receipts programme under the Securities Act, and to receipt by the Depositary of payment of the applicable fees and charges of, and reimbursement of the applicable expenses incurred by, the Depositary.

24. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions may at any time and from time to time be amended by written agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of the Deposit Agreement and these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of thirty (30) days after such notice shall have been given. Every Holder or Beneficial Owner at the time any amendment or supplement so becomes effective shall be deemed, by continuing to hold GDRs or any beneficial interest therein to consent to and approve such amendment or supplement and to be bound by the terms of the Deposit Agreement and the Conditions as amended and supplemented thereby.

In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Clause 3 of the Deposit Agreement and Condition 2, the Deposited Property

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

attributable to the relevant GDR except in order to comply with mandatory provisions of applicable law.

The parties hereto agree that substantial rights of Holders and Beneficial Owners shall not be deemed materially prejudiced by any amendments or supplements which (i) are reasonably necessary (as agreed by the Company and the Depositary) in order for the GDRs or Shares to be settled in electronic-book entry form and (ii) do not impose or increase any fees or charges to be borne by Holders or Beneficial Owners.

Notwithstanding anything in the Deposit Agreement or the Conditions to the contrary, if any governmental body should adopt new laws, rules or regulations which would require an amendment or supplement of the Deposit Agreement or the Conditions to ensure compliance therewith, the Company and the Depositary may amend or supplement the Deposit Agreement, and the Conditions at any time in accordance with such changed laws, rules or regulations. Such amendment or supplement to the Deposit Agreement and the Conditions in such circumstances may become effective before a notice of such amendment or supplement is given to Holders or within any other period of time as required for compliance with such laws, rules or regulations.

25. Notices

Any and all notices to be given to any Holder shall be deemed to have been duly given if (a) personally delivered or sent by mail, air courier or facsimile transmission, confirmed by letter, addressed to such Holder at the address of such Holder as it appears on the books of the Depositary or, if such Holder shall have filed with the Depositary a request that notices intended for such Holder be mailed to some other address, at the address specified in such request, or (b) if a Holder shall have designated such means of notification as an acceptable means of notification under the terms of the Deposit Agreement and the Conditions, by means of electronic messaging addressed for delivery to the e-mail address designated by the Holder for such purpose.

Notice to Holders shall be deemed to be notice to Beneficial Owners for all purposes of the Deposit Agreement and the Conditions. Failure to notify a Holder or any defect in the notification to a Holder shall not affect the sufficiency of notification to other Holders or to the Beneficial Owners of GDRs held by such other Holders.

Delivery of a notice sent by mail, air courier or facsimile transmission shall be deemed to be effective at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a facsimile transmission) is deposited, postage prepaid, in a post office letter box or delivered to an air courier service, without regard for the actual receipt or time of actual receipt thereof by a Holder. The Depositary or the Company may, however, act upon any facsimile transmission received by it from any Holder, the Custodian, the Depositary or the Company, notwithstanding that such facsimile transmission shall not be subsequently confirmed by letter.

Delivery of a notice by means of electronic messaging shall be deemed to be effective at the time of the initiation of the transmission by the sender (as shown on the sender's records), notwithstanding that the intended recipient retrieves the message at a later date, fails to retrieve such message, or fails to receive such notice on account of its failure to maintain the designated e-mail address, its failure to designate a substitute e-mail address or for any other reason.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

26. Copies of Company Notices

On or before the day when the Company first gives notice, by publication, or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, the Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary a copy of such notice and any other material in English but otherwise in the form given or to be given to holders of Shares or other Deposited Property.

In addition, the Company will transmit to the Depositary English-language versions of the other notices, reports and communications which are generally made available by the Company to holders of Shares or other Deposited Property. The Depositary will, at the expense of the Company, make available a copy of any such notices, reports or communications issued by the Company and delivered to the Depositary for inspection by the Holders and Beneficial Owners at the Principal New York Office and the Principal London Office, at the office of the Custodian and at any other designated transfer office. The Depositary shall arrange, at the request of the Company and at the Company's expense, for the distribution of copies thereof to all Holders on a basis similar to that for holders of Shares or other Deposited Property or on such other basis as the Company may advise the Depositary.

27. Moneys Held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any holder or any other person for any interest thereon, except as otherwise agreed.

28. Severability

If any one or more of the provisions contained in the Deposit Agreement or in the Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

29. Governing Law

- A. The Deposit Agreement, the Conditions, the Deed Poll and the GDRs, and any non-contractual obligations arising out of or in connection with them, are governed by English law, except that the required certifications from the persons making deposits or withdrawals of Shares pursuant to the Deposit Agreement are governed by and shall be construed in accordance with the laws of the State of New York. For the avoidance of doubt, the rights and obligations attaching to the Deposited Shares will be governed by PRC law.
- B. The Company and the Depositary have agreed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Deposit Agreement, the Conditions or the GDRs and the legal relationship established thereby (including a claim, dispute or difference regarding the existence, termination or validity of the Deposit Agreement, the Conditions or the GDRs or any non-contractual obligations

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

arising out of or in connection with the Deposit Agreement, the Conditions or the GDRs), shall be referred to, and finally resolved by, binding arbitration in accordance with the rules of the London Court of International Arbitration.

As contemplated by Clause 19 of the Deposit Agreement, in the event of any litigation with a third party to which (a) the Depositary is a party and to which the Company may be properly joined, the Company may be so joined by the Depositary in any court in which such litigation is pending, and (b) the Company is a party and to which the Depositary may be properly joined, the Depositary may be so joined by the Company in any court in which such litigation is pending. For the purposes of this clause 30(B) a “third party” shall mean a person or entity which is not in any way related to or affiliated with the Company.

Notwithstanding anything contained in the Deposit Agreement or the conditions to the contrary, the parties hereto agree that the English courts shall have jurisdiction to hear and determine proceedings related to the enforcement of this arbitration provision and any arbitration award by the arbitrators contemplated in this Condition 30(B), and, for such purposes, each of the Company and the Depositary irrevocably submits to the non-exclusive jurisdiction of such court.

Each of the Company and the Depositary agrees not to challenge the terms and enforceability of this arbitration clause, including, but not limited to, any challenge based on lack of mutuality, and each such party hereby irrevocably waives any such challenge.

The place of the arbitration shall be London, England and the language of the arbitration shall be English.

The number of arbitrators shall be three.

The arbitrators shall have no power or authority to award damages not measured by the prevailing party’s actual damages.

The arbitrators’ award shall be final and binding upon the parties and their respective successors, heirs, executors and assigns.

30. Contracts (Rights of Third Parties) Act 1999

A person who is not a party to the Deposit Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 (the “Act”) of the United Kingdom to enforce any term of the Deposit Agreement but this does not affect any right or remedy granted under the Deed Poll or which otherwise exists or is available apart from the Act.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

DEPOSITARY

Citibank, N.A.
388 Greenwich Street
New York, New York 10013
United States of America

CUSTODIAN

Industrial and Commercial Bank of China Limited
No. 55 Fuxingmennei Street
Xicheng District
Beijing
People's Republic of China
100140

and/or such other Depositary and/or such other Custodian or Custodians and/or principal offices as may from time to time be duly appointed and notified to the Holders.

SUMMARY OF THE PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM

The GDRs will initially be evidenced by a single Master GDR in registered form. The Master GDR will be registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc as Common Depositary for Euroclear and Clearstream on the date the GDRs are issued.

The Master GDR contains provisions which apply to the GDRs whilst they are in master form. Words and expressions given a defined meaning in the Conditions shall have the same meanings in this section unless otherwise provided in this section.

Exchange

The Master GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in paragraphs (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDR to deliver certificates in definitive registered form representing GDRs in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- (i) Euroclear or Clearstream notifies the Company that it is unwilling or unable to continue as Common Depositary and a successor common depositary system is not appointed within 90 calendar days; or
- (ii) Euroclear or Clearstream is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- (iii) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDR, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDR which would not be required were the GDRs represented by certificates in definitive registered form, *provided that* the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Company.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream. Upon any exchange of the Master GDR for certificates in definitive registered form or any distribution of GDRs pursuant to Conditions 4, 5, 6, 7 or 9 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 2, or any increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register. If the number of GDRs represented by the Master GDR is reduced to zero, the Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will be made by the Depositary through Euroclear and Clearstream on behalf of persons entitled thereto upon receipt of

SUMMARY OF THE PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILST IN MASTER FORM

funds therefore from the Company. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the records maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the Master GDR.

Holders of GDRs will have voting rights as set out in the Conditions.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, as appropriate. The delivery or production of any such evidence shall be sufficient evidence in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs and to issue voting instructions.

Notices

For as long as the Master GDR is registered in the name of a nominee for a Common Depositary holding on behalf of Euroclear and Clearstream, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 24.

Governing Law

The Master GDR, and any non-contractual obligations arising out of or in connection with the Master GDR, shall be governed by and construed in accordance with English law.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS

The Depositary

The Depositary is Citibank, N.A., a national banking association organised under the laws of the United States. The Depositary is an indirect wholly-owned subsidiary of Citigroup, Inc., a Delaware corporation. The Depositary is primarily regulated by the United States Office of the Comptroller of the Currency. See “*Information Relating to the Depositary*”. There are no bank or other guarantees attached to the GDRs which are intended to underwrite the Depositary’s obligations.

Rights of Holders of GDRs

Relationship of Holders of GDRs with the Depositary: The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreement, which are governed by English law. The Depositary and the Company are parties to the Deposit Agreement. Holders of GDRs have contractual rights in relation to cash and other Deposited Property (including Deposited Shares, which are Shares of the Company represented by GDRs) deposited with the Depositary under Clause 3 of the Deposit Agreement, and otherwise under the Deposit Agreement by virtue of the Deed Poll. The Depositary will hold the Deposited Shares and other non-cash assets as bare trustee for the Holders; however, the Depositary does not otherwise assume any relationship of trust for or with the Holders or the beneficial owners of the GDRs or any other person. Any cash held by the Depositary for Holders will be held by the Depositary as banker.

Voting: With respect to voting of Deposited Shares and other Deposited Property represented by GDRs, the Conditions and the Deposit Agreement provide that, upon receipt of notice from the Company of any meeting at which the holders of Shares or other Deposited Property are entitled to vote, or of a solicitation of consent or proxy from holders of Shares or Deposited Property, the Depositary shall, providing that no relevant legal prohibitions exist, send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be as close as possible to the corresponding record date set by the Company) such notice of meeting or solicitation of consent or proxy, along with a brief statement on the manner in which such Holders may provide the Depositary with voting instructions for matters to be considered. The Deposit Agreement provides that the Depositary will endeavour to exercise or cause to be exercised the voting rights with respect to Deposited Shares in accordance with instructions from Holders. As at the date of this Prospectus, the Company confirms that there are no restrictions under applicable law, the Articles of Association or the provisions of the Deposited Shares that would prohibit or restrict the Depositary from voting any of the Deposited Shares in accordance with instructions from Holders, except for those generally applicable to all shareholders of the Company.

Delivery of Deposited Shares: Pursuant to the Shanghai-London Stock Connect scheme, GDR holders will not be permitted to redeem their GDRs and hold the Deposited Shares underlying such GDRs in an on-shore account (such as a QFII or RQFII account) or have the underlying Deposited Shares held on their behalf by a designated broker. If GDR holders wish to hold A Shares they must purchase them separately either from the funds received from a sale of GDRs (whether a sale of GDRs on the London Stock Exchange (or another legitimate trading venue) or a redemption of GDRs and sale of the underlying A Shares on the Shanghai Stock Exchange through a designated broker) or from funds unconnected with their holding of GDRs. GDR holders or former GDR holders that are non-PRC investors may only hold A Shares if they are QFIIs or RQFIIs or are otherwise able to hold A Shares through another exemption.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS

Rights of the Company

The Company has broad rights to remove the Depositary under the terms of the Deposit Agreement, but no specific rights under the Deposit Agreement which are triggered in the event of the insolvency of the Depositary.

Insolvency of the Depositary

Applicable insolvency law: If the Depositary becomes insolvent, the insolvency proceedings will be governed by U.S. laws applicable to the insolvency of banks.

Effect of applicable insolvency law in relation to cash: The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current U.S. and English law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for such cash that would be also be available to general creditors of the Depositary.

Effect of applicable insolvency law in relation to non-cash assets: The Deposit Agreement states that the Deposited Shares and other non-cash assets which are held by the Depositary for Holders are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current U.S. and English law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's receiver or conservator to deliver such Depositary Shares and other non-cash assets that would be unavailable to general creditors of the Depositary.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Conditions or the Deposit Agreement or otherwise engages in a default for which it would be liable under the terms of the Conditions or the Deposit Agreement, the Depositary will be in breach of its contractual obligations under the Conditions. In such case, Holders will have a claim under English law against the Depositary for the Depositary's breach of its contractual obligations under the Deposit Agreement.

The Custodian

The Custodian is Industrial and Commercial Bank of China Limited, a joint stock limited company incorporated in the PRC with limited liability.

Relationship of Holders of GDRs with the Custodian: The Custodian and the Depositary are parties to a custody agreement, which is governed by Hong Kong law. The Holders do not have any contractual relationship with, or rights enforceable against, the Custodian. The Depositary will hold the Deposited Shares in electronic form in an account with CSDC. The CSDC account will be in the name of the Depositary and the Deposited Shares will be registered in the Company's share register in the name of the Depositary and deposited in the GDR facility.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS

Default of the Custodian

Failure to deliver cash: Any cash dividend payments from the Company (which are expected to be denominated in Renminbi) will initially be received by the Depositary in a custody account held with the Custodian in the Depositary's name. Subject to applicable PRC regulations, amounts received from the Company by the Depositary into its account with the Custodian will then be converted into US dollars by the Custodian in accordance with the Conditions and the US dollars will be wired to the Depositary's account in New York. After deduction of any fees and expenses of the Depositary, the US dollars will then be credited to the appropriate accounts of the Holders. If the Custodian fails to deliver cash to the Depositary as required under the custody agreement or otherwise engages in a default for which it would be liable under the terms of the custody agreement, the Custodian will be in breach of its contractual obligations under the custody agreement. In such case, the Depositary would have a claim under Hong Kong law against the Custodian for the Custodian's breach of its contractual obligations under the custody agreement. The Depositary can also remove the Custodian and appoint a successor custodian and may exercise such rights if it deems necessary. Under the Deposit Agreement, the Depositary is permitted to act as a custodian, and may choose to act in this capacity for policy, regulatory, or business reasons; however, it is currently uncertain if or when the Depositary will be licensed to act as a custodian in the PRC.

Failure to deliver non-cash assets: If the Custodian fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the custody agreement or otherwise defaults under the terms of the custody agreement, the Custodian will be in breach of its contractual obligations to the Depositary. In such case, the Depositary will have a claim under Hong Kong law against the Custodian for the Custodian's breach of its contractual obligations under the custody agreement. The Depositary can also remove the Custodian and may appoint a substitute or additional custodians and exercise such rights if it deems necessary.

The Depositary's obligations: The Depositary has no obligation to pursue a claim for breach of obligations against the Custodian on behalf of Holders. The Depositary is not responsible for and shall incur no liability in connection with or arising from default by the Custodian due to any act or omission to act on the part of the Custodian.

Insolvency of the Custodian

Applicable law: If the Custodian becomes insolvent, the insolvency proceedings will be governed by applicable PRC law.

Effect of applicable insolvency law in relation to cash: On an insolvency of the Custodian, cash held by the Custodian in a custody account for the Depositary would not constitute assets of the Custodian and the Depositary would have ownership rights relating to such cash. As a result, the Depositary would have the right to claim the cash in the custody account in full, without being subject to insolvency proceedings.

Effect of applicable insolvency law in relation to non-cash assets: All of the Deposited Shares will be registered in the name of the Depositary and be held by the Depositary in an account under its own name with the CSDC. In the event that the Custodian becomes insolvent, as legal title to the Deposited Shares will be held by the Depositary and the Deposited Shares will not be under the possession or control of the Custodian, the Deposited Shares will not constitute part of the Custodian's assets subject to the insolvency proceeding.

DESCRIPTION OF ARRANGEMENTS TO SAFEGUARD THE RIGHTS OF THE HOLDERS OF THE GLOBAL DEPOSITARY RECEIPTS

The Depositary's obligations: The Depositary has no obligation to pursue a claim in the Custodian's insolvency on behalf of the Holders. The Depositary has no responsibility for, and will incur no liability in connection with or arising from, the insolvency of any custodian. In the event of the insolvency of the Custodian, the Holders have no direct recourse to the Custodian under the Deposit Agreement, though the Depositary can remove the Custodian and appoint a substitute or additional custodian(s) and may exercise such rights if it deems necessary.

PERSONS HOLDING TITLE TO GDRS OR BENEFICIAL INTERESTS THEREIN ARE REMINDED THAT THE ABOVE DOES NOT CONSTITUTE LEGAL ADVICE AND IN THE EVENT OF ANY DOUBT REGARDING THE EFFECT OF THE DEFAULT OR INSOLVENCY OF THE DEPOSITARY OR THE CUSTODIAN, SUCH PERSONS SHOULD CONSULT THEIR OWN ADVISORS IN MAKING A DETERMINATION.

TAXATION

The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Offer GDRs and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules.

Prospective subscribers for the Offer GDRs should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Offer GDRs and as to the tax consequences of the receipt of dividends in connection with the Offer GDRs and of the sale of the Offer GDRs under the tax laws of those countries. This summary is based on the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

PRC Tax Considerations

Taxation of Dividends

Individual Investors

According to the Individual Income Tax Law of the People's Republic of China (《中华人民共和国个人所得税法》) (the "IIT Law") enacted by the Standing Committee of the fifth National People's Congress on 10 September 1980 and recently amended on 31 August 2018 and fully effective on 1 January 2019 and the Implementation Rules of Individual Income Tax Law of the People's Republic of China (《中华人民共和国个人所得税法实施条例》) recently amended by the State Council on 18 December 2018 and effective on 1 January 2019, dividends paid by PRC companies to individual investors are generally subject to a PRC withholding tax at a flat rate of 20%. For foreign individual investors, the receipt of dividends from a PRC company is normally subject to a personal income tax of 20% unless specifically exempted by the competent tax authority of the State Council or reduced in accordance with an applicable tax treaty.

Enterprises

According to the Enterprise Income Tax Law of the People's Republic of China (《中华人民共和国企业所得税法》) enacted by the Standing Committee of the fifth National People's Congress on 16 March 2007 and recently amended on 29 December 2018 and effective on the same date (the "EIT Law") and the Provision for Implementation of Enterprise Income Tax Law of the People's Republic of China (《中华人民共和国企业所得税法实施条例》) promulgated by the State Council on 6 December 2007 and recently amended on 23 April 2019 and effective on the same date, non-resident enterprises shall be subject to 10% enterprise tax for income from the PRC provided that the non-resident enterprises do not have establishment in the PRC, or that the income has no connection with the establishment of the non-resident enterprises in the PRC. Such withholding tax may be reduced pursuant to an applicable treaty on avoidance of double taxation upon approval.

Tax Treaties

Investors who reside in countries which have entered into treaties on avoidance of double taxation with the PRC may be entitled to a reduction of withholding tax on dividends to investors by PRC companies. The PRC currently has such tax treaties with a number of countries, including but not limited to, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, United Kingdom and the United States.

TAXATION

Taxation of Capital Gains

Individual Investors

In accordance with the IIT Law and its implementation rules, PRC resident individuals are subject to individual income tax at the rate of 20% on gains realised from the transfer of equity interests in PRC resident enterprises. Under the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《关于个人转让股票所得继续暂免征收个人所得税的通知》) jointly issued by the MOF and State Administration of Taxation on 30 March 1998, from 1 January 1997, income of individuals realised from transfer of shares in listed enterprises continues to be exempted from individual income tax. Although the State Administration of Taxation has not stated whether it will continue to exempt individual income tax on income of individuals from transfer of listed shares in the IIT Law and its implementation rules, on 31 December 2009, the MOF, State Administration of Taxation and CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《关于个人转让上市公司限售股所得征收个人所得税有关问题的通知》) which states that individuals' income from transfer of listed shares on certain domestic exchanges (including Shanghai Stock Exchange) shall continue to be exempted from individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales restriction (as defined in the Circular and its supplementary notice (《关于个人转让上市公司限售股所得征收个人所得税有关问题的补充通知》) issued on 10 November 2010). As at the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares or depositary receipts of PRC resident enterprises listed on overseas stock exchanges. In practice, the PRC tax authorities have not collected income tax from non-PRC resident individuals on gains from the sale of shares or depositary receipts of PRC resident enterprises listed on overseas stock exchanges.

Enterprises

In accordance with the EIT Law and its implementation rules, a non-PRC resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposition of shares in a PRC resident enterprise, if it does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

Other Chinese Tax Considerations

PRC Stamp Duty

Pursuant to the Provisional Regulations of the People's Republic of China on Stamp Duty (《中华人民共和国印花税法暂行条例》) which was promulgated by the State Council on 6 August 1988 and recently amended on 8 January 2011 and became effective on the same date (the “**Provisional Regulations**”), PRC stamp duty on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of GDRs by non-PRC investors outside the PRC. According to the Provisional Regulations, PRC stamp duty shall only be applicable to documents executed or received in the PRC which have legal binding effect in the PRC and are governed by the PRC laws.

TAXATION

Estate Tax

According to the existing laws of the PRC, non-PRC residents are not subject to estate tax for the holding of GDRs.

UK Tax Considerations

The following is a general summary of certain UK tax considerations relating to the ownership and disposal of the Offer GDRs. The comments below are of a general nature and are based on current UK law and published Her Majesty's Revenue & Customs ("**HMRC**") practice as at the date of this Prospectus, which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the Offer GDRs (and any dividends paid in respect of them) who:

- are resident solely in the UK for tax purposes (and, in the case of individuals, domiciled in the UK for tax purposes only and to whom "split year" treatment does not apply); and
- do not have a permanent establishment or fixed base outside the UK with which the holding of the Offer GDRs (and the payment of dividends in respect of the Offer GDRs) is connected.

Such absolute beneficial owners of the Offer GDRs are referred to in this discussion as "**UK holders**".

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the Offer GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations, persons holding the Offer GDRs as part of hedging or conversion transactions or persons connected with the Group.

Further, the summary assumes that:

- the UK holder of the Offer GDRs is, for UK tax purposes, absolutely beneficially entitled to the underlying A Shares and to the dividends on those A Shares;
- the UK holder did not acquire and will not be deemed to have acquired his/her Offer GDRs by virtue of an office or employment;
- the A Shares will not be held by, and the Offer GDRs will not be issued by, a depositary (or nominee or agent for a depositary) incorporated in the UK;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 5% or more of the shares and/or voting power or rights to profit or capital of the Company;
- the only payments received under the Offer GDRs are dividends with respect to the underlying A Shares and which are treated as dividends for UK tax purposes and the only payments received in respect of the A Shares are dividends;
- the Offer GDRs are not held under a pension arrangement or in an ISA or lifetime ISA;

TAXATION

- neither the A Shares nor the Offer GDRs are registered in a register kept in the UK, by or on behalf of the Company, and they will not become so registered; and
- neither the A Shares nor the Offer GDRs are paired with shares issued by a body corporate incorporated in the UK, and they will not become so paired.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. You should satisfy yourself as to the overall tax consequences, including, specifically, the consequences under UK law and HMRC practice, of acquisition, ownership and disposition of the Offer GDRs in your own particular circumstances, by consulting your own tax advisors.

Taxation of Dividends

Withholding tax

Dividend payments in respect of the Offer GDRs may be made without withholding or deduction for or on account of United Kingdom income tax. As discussed in “*PRC Tax Considerations—Taxation of Dividends*” above, amounts in respect of such dividends will be subject to PRC withholding taxes.

Currency of Dividends

UK holders of the Offer GDRs should note that their liability to UK tax in respect of dividends paid by the Company will be determined by reference to the amount of the dividend in the currency in which it is paid, which may not be the same as the amount in US Dollars received by such UK holders from the Depositary in respect of such dividend.

UK Resident Individuals

Dividends received by a UK resident individual for UK tax purposes, will generally be subject to UK income tax on the amount of any dividend paid on the Offer GDRs (before deduction of PRC withholding taxes (if any), the “Gross Dividend Amount”). Credit may be given for PRC tax withheld, subject to the UK tax rules regarding calculation and availability of such credit. UK resident individual holders of the Offer GDRs should generally be entitled to a tax-free dividend nil rate band of £2,000 on the total amount of dividend income received by the individual in the tax year. Amounts received in excess of this allowance are subject to UK income tax at the relevant dividend rates. The current rate of UK income tax which is chargeable on dividends received by (i) additional rate taxpayers is 38.1%, (ii) higher rate taxpayers is 32.5%, and (iii) basic rate taxpayers is 7.5%. An individual’s dividend income is treated as the top slice of their total income which is chargeable to UK income tax.

Corporation Tax

Holders of the Offer GDRs which are companies within the charge to UK corporation tax (by reason of being resident in the UK for tax purposes or carrying on a trade through a permanent establishment in the UK to which the Offer GDRs are attributable) should generally be entitled (subject to the fulfilment of certain conditions) to exemption from UK corporation tax in respect of dividend payments. If the conditions for exemption are not satisfied, or a Holder of the Offer GDRs elects for a dividend to be taxable, UK corporation tax will be chargeable on the Gross Dividend Amount. If potential investors are in any doubt as to their position, they should consult their own professional tax advisors.

TAXATION

Credit for PRC Tax

Credit may be given for PRC tax withheld from dividends, subject to general rules regarding the calculation and availability of such credit, including a requirement to take all reasonable steps to minimise the amount of PRC tax on such dividends, including obtaining relief at source and any available refunds. Where a dividend paid by the Company is treated as exempt from UK corporation tax, a UK resident company will not be entitled to claim relief by way of credit in the United Kingdom in respect of any PRC tax paid by such holder, either directly or by deduction, in respect of that dividend.

United Kingdom information reporting

Any persons in the United Kingdom through whom payments derived from the Offer GDRs are made or who receive (or would be entitled to receive) such payments relating to the Offer GDRs on behalf of others may be required to provide information in relation to the payment to HMRC pursuant to certain domestic and international reporting and transparency regimes. The information that is disclosed may include (but is not limited to) information relating to the beneficial owners of the Offer GDRs or the persons for whom such securities are held, details of the persons to whom payments derived from the Offer GDRs are or may be paid and information and documents in connection with transactions relating to the Offer GDRs. These provisions will apply whether or not the payments that derive from the Offer GDRs have been subject to withholding or deduction for or on account of UK tax and whether or not the holder is resident in the United Kingdom for UK tax purposes. In certain circumstances, HMRC may communicate this information to the tax authorities of certain other jurisdictions.

Disposals of the Offer GDRs

For the purposes of UK taxation on chargeable gains, the disposal or deemed disposal of the Offer GDRs by a UK resident individual holder of the Offer GDRs may, depending on his or her individual circumstances, give rise to a chargeable gain or to an allowable loss for the purpose of UK capital gains tax. The principal factors that will determine the capital gains tax position on a disposal of Offer GDRs are the extent to which the holder realises any other capital gains in the tax year in which the disposal is made, the extent to which the holder has incurred capital losses in that or any earlier tax year and the level of the annual allowance of tax-free gains in that tax year (the “**Annual Exemption**”). The current Annual Exemption is €12,000. Upon the disposal or deemed disposal of the Offer GDRs and after all allowable deductions, a UK resident individual holder of the Offer GDRs’ taxable chargeable gains would currently be taxed at (i) 10 per cent to the extent that the aggregate of the taxable chargeable gains and other taxable income for the year of the relevant holder does not exceed the upper limit of the income tax base rate band; or (ii) 20 per cent, to the extent that the aggregate of the taxable chargeable gains and other taxable income for the year of the relevant holder exceeds the basic rate income tax limit.

An individual holder of the Offer GDRs who ceases to be resident in the United Kingdom for a period of five years or less and who disposes of his or her Offer GDRs during that period of temporary non-residence may be liable to UK capital gains tax on a chargeable gain accruing on such disposal on his or her return to the United Kingdom (subject to available exemptions and reliefs).

An individual holder of the Offer GDRs who is not resident in the UK for UK tax purposes and who does not return to the United Kingdom within five tax years of disposal of the Offer GDRs will

TAXATION

not normally be liable for UK tax on gains realised on the disposal of such Offer GDRs unless, at the time of disposal, such holder carries on a trade, profession or vocation in the UK through a branch or agency to which the Offer GDRs are attributable.

A disposal of the Offer GDRs by a corporate holder which is resident in the UK for the purposes of UK tax, may give rise to a chargeable gain or an allowable loss for the purposes of UK corporation tax.

Stamp Duty and Stamp Duty Reserve Tax

No liability to stamp duty or stamp duty reserve tax (“SDRT”) should generally arise on the issue of the Offer GDRs.

No UK stamp duty or SDRT will be payable on any transfer of the Offer GDRs after they have been issued into Euroclear or Clearstream, Luxembourg (as applicable), where such transfer is effected in electronic book-entry form in accordance with the procedures of Euroclear or Clearstream, Luxembourg (as applicable).

The transfer on sale of Offer GDRs (or an agreement to transfer an equitable interest only in Offer GDRs) may give rise to a liability to UK stamp duty at a rate of 0.5 per cent of the amount or value of the consideration given for the sale or agreement to transfer. However, assuming that no document effecting a transfer of, or containing an agreement to transfer an equitable interest only in, the Offer GDRs is either (i) executed in the United Kingdom or (ii) relates to any property situated, or to any matter or thing done or to be done, in the United Kingdom (the term “matter or thing” is very wide and may include the involvement of a UK bank account in payment mechanics), then no UK stamp duty should be payable on such a document. No UK SDRT should be payable in respect of any agreement to transfer the Offer GDRs.

Inheritance Tax

The Offer GDRs should constitute assets situated outside the UK for the purposes of UK inheritance tax. As a result, subject to certain exemptions and reliefs, inheritance tax could be payable on a gift of the Offer GDRs by, or on the death of, an individual UK investor if the individual UK investor is domiciled or deemed domiciled in the UK for such purposes at the time of death. Generally, inheritance tax is not chargeable on gifts to individuals if the transfer is made more than 7 complete years prior to the death of the donor. Inheritance tax may also be payable in certain circumstances in relation to Offer GDRs transferred to a trust or held in trust if the settlor of the trust is, or was at the time of the transfer, so domiciled or deemed domiciled.

PLAN OF DISTRIBUTION

The Offering consists of an offering by the Company of up to 82,515,000 GDRs representing A Shares (the “**Offer GDRs**” with one GDR representing an interest in ten A Shares) (including any Over-allotment GDRs). The Offering comprises an offering of Offer GDRs to non-US persons outside the United States in “offshore transactions” as defined in, and in reliance on, Regulation S.

Under the terms of, and subject to, the conditions contained in the Underwriting Agreement dated 11 June 2019 entered into amongst the Company and the Joint Bookrunners, the Joint Bookrunners have severally agreed to procure purchasers for, or failing which, to themselves purchase, at the Offer Price, the number of Offer GDRs in certain agreed proportions.

See “*Reasons for the Offer and Use of Proceeds*” for an explanation of expenses paid pursuant to the Offering.

The Offering will be open from the date of this Prospectus until 14 June 2019 inclusive (the “**Offer Period**”).

The Company may extend the Offer Period or change other dates related to the Offering, in compliance with applicable laws.

All Offer GDRs sold in the Offering will be sold at the Offer Price. The Offer Price for the Offer GDRs will be determined by agreement between the Company and the Joint Global Coordinators following the book-building process. A number of factors may be considered in determining the Offer Price and the bases of allocation under the Offering, including the level and nature of demand for the Offer GDRs and the objective of encouraging the development of an orderly after-market in the Offer GDRs. The Offer Price may be established at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated) from persons (including market makers and fund managers connected with the Joint Bookrunners).

The Offer Price is expected to be announced on 14 June 2019, by way of a pricing statement, which will be made available on the Company’s website at www.HTSC.com.cn.

If the Offer Price is set above the Offer Price Range or the Offer Price Range is revised higher, then the Company will make an announcement via a Regulatory Information Service and prospective investors would have a statutory right to withdraw their application for Offer GDRs pursuant to section 87Q of the FSMA. In such circumstances, unless relevant investors agree to waive their statutory withdrawal rights, the pricing statement would not be published until the period for executing such withdrawal rights has ended and the expected day of publication of the pricing statement would be extended. The arrangements for withdrawing offers to subscribe for Offer GDRs would be made clear in the announcement.

Application will be made: (i) to the FCA, in its capacity as competent authority under the FSMA, for a listing of up to 82,515,000 GDRs representing A Shares, and, consisting of GDRs to be issued on or about 20 June 2019 (the “**Closing Date**”), GDRs (if any) to be issued pursuant to the Over-Allotment Option (if exercised) and additional GDRs to be issued from time to time against the deposit of A Shares (to the extent permitted by applicable laws and regulations) with the Depositary, to be admitted to the standard segment of the official list maintained by the FCA (the “**Official List**”), and (ii) to the London Stock Exchange, for such GDRs to be admitted to trading on the Shanghai-London Stock Connect segment of the Main Market of the London Stock Exchange. Prior to the

PLAN OF DISTRIBUTION

Offering, the A Shares are listed on the Shanghai Stock Exchange and the H Shares are listed on the Hong Kong Stock Exchange, but there has been no public market for the GDRs. Closing and settlement and admission of the GDRs to the Official List of the FCA and to unconditional trading on the London Stock Exchange's Main Market are expected to take place on the Closing Date. The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when issued" basis on or about 17 June 2019. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

Underwriting Agreement and Over-Allotment Option

The Underwriting Agreement and related arrangements contain the following provisions, amongst others:

- In connection with the Offering, the Company has agreed to pay the Joint Bookrunners:
 - (i) certain costs and expenses incurred by the Joint Bookrunners in connection with the Offering, including, but not limited to, fees, expenses and disbursements of their legal counsel and other expenses incurred on behalf of the Company;
 - (ii) underwriting commissions payable by the Company amounting to 1.6% of the gross proceeds of the Offering (including the Over-Allotment Option if exercised); and
 - (iii) at the sole discretion of the Company, an additional fee of up to 0.5% of the gross proceeds of the Offering (including the Over-Allotment Option if exercised).
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties contained in the Underwriting Agreement and the application for admission to the Official List of the FCA and to trading on the London Stock Exchange having been approved on or prior to the closing of the Offering. The Joint Global Co-ordinators may terminate the Underwriting Agreement prior to the closing of the Offering in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the Group's condition, including its financial condition, business affairs and business prospects, and certain changes in financial, political or economic conditions (as set out more fully in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, the closing of the Offering, then the Offering will lapse.
- The Company has given certain customary representations and warranties to the Joint Bookrunners, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the GDRs and in relation to the contents of this Prospectus.
- The Company has given customary indemnities to the Joint Bookrunners in connection with the Offering.
- If a Joint Bookrunner defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Joint Bookrunner may be increased or the Underwriting Agreement may be terminated.

PLAN OF DISTRIBUTION

The Joint Bookrunners are offering the Offer GDRs when, as and if, delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the GDRs and other conditions contained in the Underwriting Agreement, such as the receipt by the Joint Bookrunners of, amongst other things, officer's certificates and legal opinions.

Lock-up Provisions

The Company has agreed that neither it nor any member of the Group will, during a period from the date hereof to and including 180 days from the date of Admission, without the prior written consent of J.P. Morgan and Morgan Stanley:

- (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any A Shares, any GDRs or other shares of the Company, or any securities convertible into or exercisable or exchangeable for A Shares, GDRs or other shares of the Company; or
- (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any A Shares, any GDRs or other shares of the Company,

(whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares, GDRs or other securities, in cash or otherwise); or

- (iii) publicly announce such an intention to effect any such transaction.

Save that the lock-up arrangements described above shall not apply to (i) the issue of Shares as part of the Offering or the Over-Allotment Option, or the sale of GDRs pursuant to the Offering or the Over-Allotment Option or (ii) the issue of any Shares or GDRs or the purchase and sale of any Shares or GDRs or the grant of any option, right, warrant on contract to purchase Shares or GDRs, in each case in connection with any employee or management stock option or purchase scheme.

Stabilisation

In connection with the Offering, the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may over-allot GDRs or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action and, in particular, the Stabilising Manager's ability to undertake stabilisation action depends on deferred settlement arrangements being agreed with one or more investors in order to allow it to over-allot GDRs. Any stabilisation action may begin on the date of announcement of the Offer Price and, if begun, may be ended at any time but must end no later than 30 calendar days thereafter. Any stabilisation action must be undertaken in accordance with applicable laws and regulations. Save as required by law or regulation, the Stabilising Manager does not intend to disclose the extent of any over-allotments made and/or stabilisation transactions concluded in relation to the Offering.

In connection with the Offering, the Stabilising Manager may, for stabilisation purposes and subject to the deferred settlement arrangements described above, over-allot GDRs up to a maximum of 10% of the total number of GDRs sold in the Offering. For the purposes of allowing it to cover short

PLAN OF DISTRIBUTION

positions resulting from any such over-allotments and/or from sales of GDRs effected by it during the Stabilisation Period, the Stabilising Manager will enter into over-allotment arrangements pursuant to which the Stabilising Manager may purchase or procure purchasers for additional GDRs up to a maximum of 10% of the total number of GDRs sold in the Offering at the Offer Price. The over-allotment arrangements will be exercisable in whole or in part, upon notice by the Stabilising Manager, at any time on or before the 30th calendar day after the date of announcement of the Offer Price. Any Over-allotment GDRs made available pursuant to the over-allotment arrangements, including for all dividends and other distributions declared, made or paid on the GDRs, will be purchased on the same terms and conditions as the GDRs being issued or sold in the Offering and will form a single class for all purposes with the other GDRs.

Other Relationships

The Joint Bookrunners and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company, for which they received customary fees, and they and their respective affiliates may provide such services for the Company and its respective affiliates in the future. As a result, the Joint Bookrunners and their respective affiliates may have a commercial interest in continuing to provide services to the Company and its respective affiliates that may be material to the Offering.

Huatai Financial Holdings (Hong Kong) Limited, who is participating in this offering as a Joint Global Co-ordinator and Joint Bookrunner, is an affiliate of the Company.

In connection with the Offering, the Joint Bookrunners and/or any of their respective affiliates and/or funds managed by affiliates of the Company acting as an investor for its or their own account(s) may subscribe for Offer GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Offering or otherwise. Accordingly, references in this Prospectus to the Offer GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Joint Bookrunners and/or any of their respective affiliates and/or funds managed by affiliates of the Company acting as an investor for its or their own account(s). In addition, certain of the Joint Bookrunners or their affiliates may enter into financing or hedging arrangements (including swaps) with investors in connection with which such Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of GDRs). Neither the Joint Bookrunners nor the Company intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Trading GDRs

Application will be made for the GDRs to be admitted to trading on the Shanghai-London Stock Connect segment of the Main Market of the London Stock Exchange, through its IOB. In addition to buying or selling GDRs through the IOB, under the Shanghai-London Stock Connect scheme, a GDR holder will be able to (i) buy GDRs by requesting a designated broker to buy A Shares on the Shanghai Stock Exchange and instruct the Depositary to create GDRs representing such A Shares and (ii) sell GDRs by requesting a designated broker to redeem their GDRs and sell the underlying A Shares on the Shanghai Stock Exchange. Designated brokers will be London Stock Exchange members designated by the Shanghai Stock Exchange who hold accounts with Shanghai Stock Exchange members enabling them to create or redeem GDRs by buying or selling the underlying

PLAN OF DISTRIBUTION

A Shares on the Shanghai Stock Exchange (subject to quotas imposed by relevant regulators, as described below) and providing relevant instructions to the Depositary.

In order to buy GDRs, an investor may either (i) buy GDRs on the London Stock Exchange or another legitimate trading venue in the normal manner or (ii) instruct (either directly or through their normal broker) a designated broker to buy A Shares on the Shanghai Stock Exchange and then instruct the Depositary to create GDRs representing such A Shares.

In order to sell GDRs, an investor may either (i) sell GDRs on the London Stock Exchange or another legitimate trading venue in the normal manner or (ii) instruct (either directly or through their normal broker) a designated broker to redeem the GDRs and sell the underlying A Shares on the Shanghai Stock Exchange.

A designated broker may also buy or sell (and hold an inventory of) A Shares as principal in order to facilitate the purchase and redemption of GDRs cross-border.

This mechanism is intended to provide fungibility between the GDRs and the A Shares by enabling investors or their brokers to place buy and sell orders with the designated brokers who are able to seek the best price from either market.

Four designated brokers in the United Kingdom were confirmed from December 2018 to January 2019. The PBOC and the SAFE published the Administrative Measures on Cross-border Funds under Depositary Receipts (For Trial Implementation) (存托凭证跨境资金管理办法 (试行)) in May 2019, which requires the designated brokers to file certain documents and register with the SAFE. Pursuant to their SAFE registration each designated broker will be subject to restrictions relating to, among other things, the types of securities such designated broker can deal in (such as the A shares underlying GDRs, money market and treasury bills, and other securities as specifically approved by CSRC), as well as daily inventory related quotas on the maximum number and value of cash and securities to be held by such designated broker and foreign exchange related quotas on the cumulative net inflow of funds into the PRC in connection with the redemption and creation of GDRs executed by such designated broker. Additional detailed rules are also expected to be published shortly jointly by the CSRC in China and the FCA in the United Kingdom, but such rules have not been published as at the date of this Prospectus. The list of designated brokers is available on the website of the Shanghai Stock Exchange and on the website of the London Stock Exchange.

Investors should note that settlement of dealings in GDRs on the IOB will take place on a standard two-day rolling basis. Settlement of purchases of GDRs through a designated broker will also take place on a two-day rolling basis. However, settlement of redemption of GDRs through a designated broker (where the designated broker sells the underlying A Shares on the Shanghai Stock Exchange) may take place on either a two-day rolling basis or a three-day rolling basis, depending on whether the relevant designated broker holds any inventory of A Shares at such time. This delay is due to the requirement in China for trades to be pre-delivered and the time it takes to redeem GDRs. Therefore, investors redeeming GDRs may be subject to one day market risk in China where the relevant designated broker does not hold any inventory of A Shares.

SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS

SELLING RESTRICTIONS

The distribution of this Prospectus and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions, including those set forth in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the GDRs may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the offer, subscription and sale of the GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or buy any of the GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

China

Each Joint Bookrunner has represented and agreed that the GDRs are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the applicable laws of the People's Republic of China, including the PRC Securities Law.

Dubai International Financial Centre

Each Joint Bookrunner has represented and agreed that it has not offered and will not offer the GDRs to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Markets Rules Module of the DFSA Rulebook; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

European Economic Area

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**") no GDRs have been offered or will be offered pursuant to the Offering to the public in that Relevant Member State prior to the publication of a prospectus in relation to the GDRs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of

SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS

GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Global Co-ordinators for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing Article 16 of the Prospectus Directive in a Relevant Member State.

For the purposes of this provision, the expression an “offer to the public” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

In the case of any GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the GDRs acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any GDRs to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Joint Global Co-ordinators has been obtained to each such proposed offer or resale. The Company, the Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Underwriters of such fact in writing may, with the prior consent of the Joint Global Co-ordinators, be permitted to acquire GDRs in the Offering.

Hong Kong

The contents of this Prospectus have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Offering. If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice. Please note that (1) the GDRs may not be offered or sold in Hong Kong by means of this Prospectus or any other document other than to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571) (“SFO”) and any rules made thereunder, or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance of Hong Kong (Cap. 622) (“CO”) or which do not constitute an offer or invitation to the public for the purposes of the CO or the SFO, and (2) no person shall issue, or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to shares which is directed at, or the contents of which are likely to be accessed or

SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS

read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the GDRs which are or are intended to be disposed of only to persons outside Hong Kong or only to such professional investors.

This Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the GDRs may not be circulated or distributed, nor may the GDRs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the GDRs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the GDRs pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Japan

The GDRs offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, each Joint Bookrunner has represented, warranted and agreed that the GDRs which it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any GDRs in Japan or to, or for the

SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS

benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Qatar

This Prospectus does not, and is not intended to, constitute an invitation or an offer of securities in the State of Qatar (including the Qatar Financial Centre) and accordingly should not be construed as such. The GDRs have not been, and shall not be, offered, sold or delivered at any time, directly or indirectly, in the State of Qatar. Any offering of the GDRs shall not constitute a public offer of securities in the State of Qatar.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore, and the GDRs will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”). Accordingly, the Securities have not been offered or sold or made the subject of an invitation for subscription or purchase and will not be offered or sold or made the subject of an invitation for subscription or purchase; and this Prospectus or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Securities, has not circulated or distributed, nor will be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Securities, namely a person who is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the GDRs under Section 275 of the Securities and Futures Act except:
 - (i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1A) of the Securities and Futures Act, respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or
 - (ii) where no consideration is or will be given for the transfer;

SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS

- (iii) where the transfer is by operation of law; or
- (iv) pursuant to Section 276(7) of the Securities and Futures Act.

Switzerland

The GDRs may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“SIX”) or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the GDRs or the Offering may be publicly distributed or otherwise made publicly available in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Offer, the Company or the GDRs have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of the GDRs will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of GDRs has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (“CISA”). The equity investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the GDRs.

United Arab Emirates

Each Joint Bookrunner has represented and agreed that the GDRs have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

United Kingdom

Each Joint Bookrunner has represented, warranted and agreed that:

- (i) it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

United States

The GDRs have not been and will not be registered under the Securities Act. The Offer GDRs are being offered and sold outside the United States to non-US persons in reliance on Regulation S.

Each Joint Bookrunner has agreed that, except as permitted by the Underwriting Agreement, it will offer or sell the Offer GDRs (i) as part of their initial distribution and (ii) otherwise until 40 days

SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS

after the later of the commencement of the Offering and the Closing Date, only outside the United States to purchasers not known by it, by pre-arrangement or otherwise, to be US persons (as defined in Regulation S) in offshore transactions within the meaning and meeting the requirements of Rule 903 under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Offer GDRs, an offer or sale of Offer GDRs within the United States by any dealer (not participating in the Offering) may violate the registration requirements of the Securities Act.

TRANSFER RESTRICTIONS

Each purchaser of Offer GDRs will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser, and the person, if any, for whose account it is acquiring Offer GDRs, at the time of the offer to it of the Offer GDRs and at the time the buy order originated, are non-US persons located outside the United States and are acquiring the GDRs in an offshore transaction in accordance with Regulation S for the purposes of Rule 903 under the Securities Act, and the purchaser is not an affiliate of the Group or a person acting on behalf of the Group or such an affiliate;
2. the purchaser, and the person, if any, for whose account it is acquiring the Offer GDRs understand that, prior to the expiration of the distribution compliance period, it will only offer, sell, pledge or otherwise transfer such Offer GDRs outside the United States to a person not known by the purchaser, by pre-arrangement or otherwise, to be a US person (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with applicable securities laws of any State of the United States.
3. the purchaser, and the person, if any, for whose account it is acquiring Offer GDRs, are aware that the Offer GDRs have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and are being offered to non-US persons outside the United States in reliance on Regulation S;
4. any offer, sale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognised by the Company in respect of the GDRs;
5. the purchaser understands that the Offer GDRs and the Master GDR will bear a legend substantially to the following effect:

THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE ORDINARY SHARES OF HUATAI SECURITIES CO., LTD. REPRESENTED THEREBY (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED

SELLING RESTRICTIONS AND TRANSFER RESTRICTIONS

HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERING OF REGULATION S GDRS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (II) THE LAST CLOSING DATE WITH RESPECT TO THE GDRs), ONLY OUTSIDE THE UNITED STATES TO A PERSON NOT KNOWN BY SUCH HOLDER OR BENEFICIAL OWNER, BY PRE-ARRANGEMENT OR OTHERWISE, TO BE A US PERSON (AS SUCH TERM IS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT.

UPON THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED BY GDRS SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS SECURITIES ACT LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDR CERTIFICATES, THE REGULATION S GDRS EVIDENCED THEREBY AND THE SHARES REPRESENTED HEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

6. the Company, the Joint Bookrunners and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

CLEARING AND SETTLEMENT

Clearing and Settlement of Offer GDRs

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Offer GDRs and cross-market transfers of the Offer GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including joint bookrunners, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective clients may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the Offer GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the Offer GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Offer GDR registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as Common Depositary for Euroclear and Clearstream, Luxembourg. As necessary, the Depositary will adjust the amounts of Offer GDRs on the relevant register to reflect the amounts of Offer GDRs held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership in the Offer GDRs will be held through financial institutions as direct and indirect participants in Euroclear, and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Offer GDRs in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear, and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the Offer GDRs, will be responsible for establishing and maintaining accounts for their participants and clients having interests in the book-entry interests in the Offer GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of Offer GDRs registered in the name of the Common Depositary for Euroclear and Clearstream, Luxembourg. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be.

CLEARING AND SETTLEMENT

The Company will not impose any fees in respect of the Offer GDRs; however, holders of book-entry interests in the Offer GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See “*Terms and Conditions of the Global Depositary Receipts*.”

Global Clearance and Settlement Procedures

Initial Settlement

The Offer GDRs will be in global form evidenced by a Master GDR Certificate. Purchasers electing to hold book-entry interests in Offer GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the Offer GDRs, see “*Selling Restrictions and Transfer Restrictions—Transfer Restrictions*”.

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Offer GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Offer GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

General

Although the foregoing sets forth the procedures of Euroclear, and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Offer GDRs among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

Settlement of the Offer GDRs

Payment for the Offer GDRs is expected to be made in US dollars in same-day funds through the facilities of Euroclear and Clearstream, Luxembourg. Book-entry interests in the Offer GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master GDR Certificate registered in the name of Citivic Nominees Limited, as nominee for Citibank Europe plc, as Common Depositary for Euroclear and Clearstream, Luxembourg. Except in limited circumstances described herein, investors may hold beneficial interests in the Offer GDRs evidenced by the Master GDR Certificate only through Euroclear or Clearstream, Luxembourg as applicable.

Transfers within Euroclear and Clearstream Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

INFORMATION RELATING TO THE DEPOSITARY

Citibank, N.A. (“**Citibank**”) has been appointed as Depositary pursuant to the Deposit Agreement. Citibank is an indirect wholly owned subsidiary of Citigroup Inc., a Delaware corporation. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organised on 16 June 1812, and is now a national banking association organised under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal executive office is at 388 Greenwich Street, New York, NY 10013, United States of America. Citibank’s Consolidated Balance Sheets are set forth in Citigroup’s most recent Annual Report (audited balance sheet) and Quarterly Report (unaudited), each on file on Form 10-K and Form 10-Q, respectively, with the United States Securities and Exchange Commission. Citibank’s Articles of Association and By-laws, each as currently in effect, together with Citigroup’s Annual Report on Form 10-K and Quarterly Report on Form 10-Q are available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, New York 10013.

INDEPENDENT AUDITORS

KPMG PRC, independent auditors, has audited the consolidated financial statements of the Group as at and for the years ended 31 December 2016, 31 December 2017 and 31 December 2018. KPMG PRC, located at Beijing, China, is an independent accountant and a member of the Chinese Institute of Certified Public Accountants.

KPMG PRC has given and not withdrawn its written consent to the inclusion of its audit reports on pages F-2 and F-123 of this Prospectus and its review report on page F-254 of this Prospectus in the form and context in which they appear and has authorised the contents of such reports, for the purposes of Commission Regulation (EC) 809/2004 and paragraph 5.5.4R(2)(f) of the Prospectus Rules. Written consent for the purposes of Commission Regulation (EC) 809/2004 is different from a consent filed with the Securities and Exchange Commission of the United States under Section 7 of the Securities Act. As the Offer GDRs have not and will not be registered under the Securities Act, KPMG PRC has not filed a consent under Section 7 of the Securities Act. For the purposes of Commission Regulation (EC) 809/2004 and paragraph 5.5.4R(2)(f) of the Prospectus Rules, KPMG PRC accepts responsibility for its audit reports on pages F-2 and F-123 of this Prospectus and its review report on page F-254 of this Prospectus as part of this Prospectus and declares that it has taken all reasonable care to ensure that the information contained in such reports is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect their import. This declaration is included in this Prospectus in compliance with item 1.2 of Annex X of Commission Regulation (EC) 809/2004.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company with respect to English law by Clifford Chance LLP, with respect to US law by Clifford Chance and with respect to PRC law by Fangda Partners.

Certain legal matters in connection with the Offering will be passed upon for the Joint Bookrunners with respect to English law by Linklaters LLP, with respect to US law by Linklaters and with respect to PRC law by King & Wood Mallesons.

GENERAL INFORMATION

1. Listing and Trading

It is expected that the GDRs will be admitted, subject only to the issue of the Master GDR Certificate, to listing on the standard segment of the Official List of the FCA and to trading on the Shanghai-London Stock Connect segment of the London Stock Exchange's Main Market on or about 20 June 2019. The Company expects that conditional trading in the GDRs on the London Stock Exchange through the IOB will commence on a "when issued" basis on or about 17 June 2019. All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

Transactions in the GDRs will normally be effected for delivery on the second working day after the day of the transaction.

2. Authorisations

The Company has obtained all consents, approvals and authorisations in the PRC in connection with the admission of the Offer GDRs to listing on the standard segment of the Official List and to trading on the Shanghai-London Stock Connect segment of the London Stock Exchange's Main Market required to be obtained prior to the date of this Prospectus.

3. Documents Available for Inspection

Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered office of the Company, for a period of one year from the date of publication of this Prospectus:

- this Prospectus;
- the Articles;
- the Financial Statements; and
- the Deposit Agreement.

The Company's registered office is located at No. 228 Middle Jiangdong Road, Nanjing, Jiangsu Province, 210019, People's Republic of China. Telephone: +86 25 83389999.

4. Security Codes

GDR ISIN: US44331T1043

GDR Common Code: 190823466

GDR CUSIP: 44331T104

GDR SEDOL: BGR9NW4

London Stock Exchange trading symbol: HTSC.

A Shares ISIN: CNE100000LQ8

Shanghai Stock Exchange stock code: 601688

H Shares ISIN: CNE100001YQ9

Hong Kong Stock Exchange stock code: 6886

5. Depositary and Agent

Holders of GDRs may contact Citibank, N.A., as Depositary for the GDRs with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at its principal

GENERAL INFORMATION

executive office at 388 Greenwich Street, 6th Floor North, New York, New York 10013, United States of America.

If definitive certificates are issued in exchange for the Master GDR Certificate, the Company will appoint an agent in the United Kingdom.

6. Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus which may have, or have had a significant effect on the Company's and/or the Group's financial position or profitability.

7. Significant Change

There has been no significant change in the financial or trading position of the Group since 31 March 2019, the end of the last financial period for which financial information has been published.

8. Subsidiaries

As at the date of this Prospectus, the Company is the parent company of a corporate group that comprises other companies. Further detail on the Company's material subsidiaries as at the date of this Prospectus is provided below.

<u>Name of subsidiary (full name)</u>	<u>Percentage (%)</u>
Huatai Securities (Shanghai) Asset Management Co., Ltd.	100
Huatai Purple Gold Investment Co., Ltd.	100
Huatai International Financial Holdings Co., Ltd.	100
Huatai Innovative Investment Co., Ltd.	100
Huatai United Securities Co., Ltd.	99.92
Huatai Futures Co., Ltd.	60
Jiangsu Equity Exchange Centre Co., Ltd.	52

9. Material Contracts—Transaction

Underwriting Agreement

On 11 June 2019, the Company and the Joint Bookrunners entered into the Underwriting Agreement. For more information, see “*Plan of Distribution—Underwriting Agreement and Over-Allotment Option*”.

Deposit Agreement

On 3 December 2018, the Company and the Depositary entered into the Deposit Agreement for the establishment and maintenance of a GDR facility and the GDRs issued pursuant thereto and pursuant to which the Company also executed a Deed Poll in favour of Holders in the form attached to the Deposit Agreement. For more information, see “*Terms and Conditions of the Global Depositary Receipts*”.

GENERAL INFORMATION

10. Material Contracts – Operations

Share Subscription Agreement

In July 2018, the Company entered into share subscription agreements with each of the six investors, namely Alibaba (China) Technology Co., Ltd., Suning.Com Co., Ltd., Essence Securities Co., Ltd., China Structural Reform Fund Corporation Limited, Shanghai BeiXin RuiFeng Asset Management Co., Ltd., and Sunshine Property and Casualty Insurance Co., Ltd. These six investors subscribed for a total of 1,088,731,200 shares of the Company at an issue price of RMB13.05 per share. The table below sets forth some details of each investor's subscription:

<u>Investor</u>	<u>Shares Subscribed</u>
Alibaba (China) Technology Co., Ltd.	268,199,233
Suning.Com Co., Ltd.	260,536,398
Essence Securities Co., Ltd.	247,545,593
China Structural Reform Fund Corporation Limited	153,256,704
Shanghai BeiXin RuiFeng Asset Management Co., Ltd.	115,019,157
Sunshine Property and Casualty Insurance Co., Ltd.	44,174,115

This share subscription was a private fundraising by the Company and the shares subscribed by the investors are subject to a twelve-month lock-up period. The use of proceeds from this share subscription was to further develop the Group's capital-based intermediary business, increase the investment scale of fixed-income products, support wholly-owned subsidiaries in the PRC, expand its international business and fund the development of IT systems, among other things.

11. Securities

The Company has not issued any partly paid shares nor any convertible securities, exchangeable securities or securities with warrants. The Company does not hold any shares in treasury. There are no shares in the Company's issued share capital that do not represent capital.

12. Takeover Bids

No public takeover bids by third parties in respect of the Company's capital have occurred during the last financial year or as at the date of this document.

13. Expenses

The total costs and expenses relating to the Offering, including the FCA and LSE listing fees, underwriting commissions and professional fees and expenses, are estimated to amount to between approximately US\$40.3 million and US\$48.2 million (assuming 82,515,000 GDRs are sold in the Offering and the Offer Price is set at either the bottom or the top of the Offer Price Range) and are payable by the Company.

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

“A share(s)”	the shares that are traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange in Renminbi
“A Shares”	domestic shares of the Company, with a par value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the Shanghai Stock Exchange
“ABS”	asset-backed securities
“Admission”	admission to listing of the GDRs on the standard segment of the Official List of the FCA and to trading on the Shanghai-London Stock Connect segment of the Main Market of the London Stock Exchange
“AMAC”	Asset Management Association of China
“Annual Financial Statements”	the Company’s audited consolidated financial statements as at and for the years ended 31 December 2016, 31 December 2017 and 31 December 2018
“Articles of Association or Articles”	the articles of association of the Company, as amended
“AssetMark”	AssetMark Financial Holdings, Inc.
“Auditor”	KPMG PRC
“AUM”	the amount of assets under management
“Board”	the Board of Directors
“Bohai Rim”	the region in China comprising Beijing, Tianjin, Hebei, Liaoning and Shandong provinces
“CAGR”	compound annual growth rate
“CFA”	the China Futures Association
“China Securities Finance”	China Securities Finance Corporation Limited, a joint stock company established under the direction of the State Council to provide, among other functions, margin and securities refinancing services to support the margin financing and securities lending businesses of PRC securities firms
“China Southern Asset Management”	China Southern Asset Management Co., Ltd.
“ChiNext Board”	the growth enterprise board launched by the Shenzhen Stock Exchange

DEFINITIONS

“Clearstream”	Clearstream Banking, société anonyme
“Closing Date”	on or about 20 June 2019
“collateral coverage ratio”	for securities-backed lending business, it refers to the ratio of the market value of equity pledged by clients to the loans and accrued interests of the clients; for stock repurchase business, it refers to the ratio of the market value of underlying securities sold by clients to the transaction amount
“collective asset management scheme”	an asset management contract entered into with multiple clients by a securities firm in China, pursuant to which the clients’ assets are placed in the custody of commercial banks qualified to hold client transaction settlement funds or in other institutions approved by the CSRC, and the securities firm provides asset management services to the clients through designated accounts
“Company” or “Huatai Securities”	Huatai Securities Co., Ltd., a joint stock company incorporated in the People’s Republic of China with limited liability under the corporate name 华泰证券股份有限公司 (Huatai Securities Co., Ltd.), converted from its predecessor 华泰证券有限责任公司 (Huatai Securities Limited Liability Company) on 7 December 2007, the A Shares of which are listed on the Shanghai Stock Exchange on 26 February 2010 (Stock Code: 601688), or HTSC (if being referred to in Hong Kong). Unless the context otherwise requires, it includes its predecessor
“CRM”	Customer Relationship Management
“CSDC”	China Securities Depository and Clearing Corporation Limited
“CSI 300 Index”	a capitalisation-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange, which is compiled by the China Securities Index Co., Ltd.
“CSRC”	China Securities Regulatory Commission (中国证券监督管理委员会)
“Custodian”	Industrial and Commercial Bank of China Limited
“Deposit Agreement”	the Deposit Agreement entered into by the Company and the Depositary in connection with the issuance of the GDRs
“Depositary”	Citibank, N.A.

DEFINITIONS

“Director(s)”	director(s) of the Company
“Disclosure Guidance and Transparency Rules”	the Disclosure Guidance and Transparency Rules made by the FCA under Part VI of the FSMA
“DR Provisions”	“Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange” (for trial implementation) (关于上海证券交易所与伦敦证券交易所互联互通存托凭证业务的监管规定 (试行)) published by the CSRC on 12 October 2018
“EEA”	the European Economic Area
“equity return swap”	an OTC derivatives transaction, through which a securities firm and a qualified client agree to conduct an income swap in accordance with the agreed amount of nominal principal and income within a fixed period in the future. Income under such swap shall be linked with the performance of the subject equity securities including stocks and indexes
“ETFs”	exchange-traded funds
“Euroclear”	the Euroclear Bank S.A./N.V.
“FCA”	the United Kingdom Financial Conduct Authority
“FICC”	fixed-income, currencies and commodities
“Financial Statements”	the Interim Financial Statements and the Annual Financial Statements
“FSMA”	the Financial Services and Markets Act 2000, as amended
“GDR”	global depositary receipts which represent A Shares of the Company
“Group”	the Company and its consolidated subsidiaries
“H share(s)”	overseas-listed shares of PRC companies that are traded on the Hong Kong Stock Exchange
“H Shares”	overseas listed foreign shares in the share capital of the Company with a par value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
“HK\$”, “HKD” or “HK dollars”	the lawful currency of Hong Kong
“HMRC”	Her Majesty’s Revenue & Customs

DEFINITIONS

“Holder”	Holders of GDRs
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Huatai Financial Holdings”	Huatai Financial Holdings (Hong Kong) Ltd.
“Huatai Futures”	Huatai Futures Co., Ltd.
“Huatai International”	Huatai International Financial Holdings Co., Ltd.
“Huatai Purple Gold Investment”	Huatai Purple Gold Investment Co., Ltd.
“Huatai United”	Huatai United Securities Co., Ltd.
“Huatai-PineBridge”	Huatai-PineBridge Fund Management Co., Ltd.
“IAS”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRS”	International Financial Reporting Standards issued by the IASB
“Interim Financial Statements”	the Company’s unaudited, reviewed consolidated financial statements as at and for the three months ended 31 March 2019 prepared in accordance with the IAS 34
“IOB”	the International Order Book of the London Stock Exchange
“IPO”	initial public offering
“IT”	information technology
“Joint Bookrunners”	J.P. Morgan, Huatai Financial Holdings, Morgan Stanley, Credit Suisse and HSBC
“Joint Global Co-ordinators”	J.P. Morgan, Huatai Financial Holdings and Morgan Stanley
“KPMG PRC”	KPMG Huazhen LLP, a firm of certified public accountants registered in PRC
“Listing Rules”	the Listing Rules made by the FCA under Part VI of the FSMA
“London Stock Exchange” or “LSE”	London Stock Exchange plc

DEFINITIONS

“M&A”	mergers and acquisitions
“Main Market”	the main market for listed securities of the London Stock Exchange
“maintenance margin ratio”	for margin loan and securities lending business, it refers to the ratio of the fair value of the collateral, including cash and securities in the margin accounts of the customers, to the total amount of receivables from the customers, including margin loan balance, market value of securities lent and accrued interest and fees
“Master GDR Certificate”	Master Global Depositary Receipt Certificate
“MAU”	monthly active users
“NAFMII”	National Association of Financial Market Institutional Investors
“NEEQ”	National Equities Exchange and Quotations, also known as the New OTC Board
“Net Capital”	refers to the sum of a securities firm’s core net capital and ancillary net capital. Core net capital is measured by subtracting from net assets the risk adjustments required to be made to a securities firm’s assets and contingent liabilities, and further adding or subtracting any other adjustments determined or authorised by the CSRC. Ancillary net capital is measured by long-term subordinated debt multiplied by the stipulated percentages, and further adding or subtracting any other adjustments determined or authorised by the CSRC
“NSSF”	National Council for Social Security Fund
“Offer GDRs”	up to 82,515,000 GDRs representing A Shares (including any Over-allotment GDRs)
“Offer Price”	the price at which Offer GDRs will be sold in the Offering
“Offer Price Range”	US\$20.00 to US\$24.50
“Offering”	an offering of Offer GDRs to non-“US persons” outside the United States in offshore transactions in reliance on Regulation S
“Official List”	the official list maintained by the FCA
“Order”	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended

DEFINITIONS

“OTC”	over-the-counter
“Over-allotment GDRs”	the GDRs subject to the Over-allotment option
“Over-allotment Option”	the option granted by the Company to the Stabilising Manager, exercisable within 30 days after the commencement of trading of the GDRs, to purchase up to an additional 10% of the aggregate number of Offer GDRs (excluding any Over-allotment GDRs)
“PBOC”	People’s Bank of China
“PC”	personal computer
“Pearl River Delta”	the region in China comprising Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen and Zhaoqing, all located in Guangdong province
“PRC” or “China”	the People’s Republic of China
“PRC Company Law”	Company Law of the People’s Republic of China (中华人民共和国公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on 28 December 2013 and became effective on 1 March 2014
“Prospectus Directive”	Directive 2003/71/EC, as amended and any relevant implementing measure in each Member State of the European Economic Area that has implemented the Prospectus Directive
“Prospectus Rules”	the Prospectus Rules made by the FCA under Part VI of the FSMA
“province”	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
“QDII”	qualified domestic institutional investor
“QFII”	qualified foreign institutional investor
“Qualified Investors”	qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC)
“regional equity exchange”	regional equity depositary trading centre which is intended to facilitate financing to SMEs

DEFINITIONS

“Regulation S”	Regulation S under the Securities Act
“RMB” or “Renminbi”	the lawful currency of the PRC
“RQFII”	RMB qualified foreign institutional investor
“SAC”	Securities Association of China
“SAFE”	State Administration of Foreign Exchange
“Sci-Tech Innovation Board”	the Science and Technology Innovation Board to be launched by the Shanghai Stock Exchange
“SDRT”	stamp duty reserve tax
“Securities Act”	the United States Securities Act of 1933, as amended
“securities-backed lending”	a transaction in which a securities firm provides financing to qualified customers who pledge their securities as collateral
“SFC”	The Hong Kong Securities and Futures Commission
“Shanghai Stock Exchange” or “SSE”	the Shanghai Stock Exchange
“Shanghai-Hong Kong Stock Connect”	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
“Shares”	A Shares or H Shares (as the case may be)
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange
“Shenzhen-Hong Kong Stock Connect”	a securities trading and clearing links programme developed by the Hong Kong Stock Exchange, Shenzhen Stock Exchange, HKSCC and CSDC for the establishment of mutual market access between Hong Kong and Shenzhen
“SME Board”	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange
“specialised asset management scheme”	a specialised asset management contract entered into with clients by a securities firm in China, pursuant to which the securities firm manages clients’ certain assets for specific purpose

DEFINITIONS

“sponsor representative”	a professional representative qualified in China to sponsor and execute the offering and listing of securities pursuant to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities of the PRC
“Stabilisation Period”	the period commencing on the date of announcement of the Offer Price and ending no later than the date 30 days thereafter
“Stabilising Manager”	J.P. Morgan
“stock index futures”	cash-settled standardised futures contracts with a particular stock market index as the underlying asset
“stock repurchase”	a transaction pursuant to securities repurchase agreement in which a qualified investor sells its securities to a securities firm and agrees to repurchase such securities at a fixed price on a future date
“structured notes”	marketable securities issued by securities firms with the payment of principal and return linked to specific underlying assets
“Supervisor(s)”	member(s) of our Supervisory Committee
“targeted asset management scheme”	a targeted asset management contract entered into by a securities firm in China with a single client, pursuant to which the securities firm provides asset management services to the client through accounts under the client’s name
“TMT”	telecommunications, media and technology
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“US” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US person”	a US person, as defined in Rule 902 of Regulation S
“US\$” or “US Dollars”	the lawful currency of the United States of America
“Wind Info”	Wind Information Co., Ltd., a company with limited liability incorporated in the PRC and a service provider of financial data, information and software, being an independent third party of the Company
“Yangtze River Delta”	the region comprising Jiangsu and Zhejiang provinces and Shanghai
“%”	per cent.

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements of the Group as at and for the years ended 31 December 2016 and 2017

Independent Auditor's Report	F-2
Consolidated income statements	F-4
Consolidated statements of profit or loss and other comprehensive income	F-5
Consolidated statements of financial position	F-6
Consolidated statements of changes in equity	F-8
Consolidated cash flow statements	F-10
Notes to the Financial Statements	F-12

Audited Consolidated Financial Statements of the Group as at and for the year ended 31 December 2018

Independent Auditor's Report	F-123
Consolidated income statements	F-125
Consolidated statements of profit or loss and other comprehensive income	F-126
Consolidated statements of financial position	F-127
Consolidated statements of changes in equity	F-129
Consolidated cash flow statements	F-130
Notes to the Financial Statements	F-134

Unaudited Condensed Consolidated Financial Statements of the Group as at and for the three months ended 31 March 2019

Report on review of interim financial report	F-254
Unaudited condensed consolidated income statements	F-255
Unaudited condensed consolidated statements of profit or loss and other comprehensive income	F-256
Unaudited condensed consolidated statements of financial position	F-257
Unaudited condensed consolidated statements of changes in equity	F-259
Unaudited condensed consolidated cash flow statements	F-260
Notes to the unaudited condensed consolidated financial statements	F-262

Independent Auditor's Report

To the Board of Directors
Huatai Securities Co., Ltd.

Opinion

We have audited the consolidated financial statements of Huatai Securities Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position of the Group as at 31 December 2016 and 2017, the consolidated income statements, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the years then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has 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. 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 scepticism 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 management.
- Conclude on the appropriateness of management's 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.

KPMG Huazhen LLP

Certified Public Accountants

8/F, KPMG Tower, Oriental Plaza,

1 East Chang'an Avenue

Beijing, China

11 June 2019

Consolidated income statements

For the years ended 31 December 2016 and 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Revenue			
Fee and commission income	4	12,926,354	11,409,918
Interest income	5	9,348,923	8,877,946
Net investment gains	6	7,302,250	3,976,115
Total revenue		29,577,527	24,263,979
Other income and gains	7	1,745,845	367,649
Total revenue and other income		31,323,372	24,631,628
Fee and commission expenses	8	(4,244,196)	(2,561,665)
Interest expenses	9	(5,749,099)	(5,393,487)
Staff costs	10	(7,030,196)	(5,648,420)
Depreciation and amortisation expenses	11	(566,306)	(408,527)
Tax and surcharges		(152,408)	(450,613)
Other operating expenses	12	(2,277,471)	(2,066,228)
(Provision for)/reversal of impairment losses	13	(259,030)	36,753
Total expenses		(20,278,706)	(16,492,187)
Operating profit		11,044,666	8,139,441
Share of profit of associates and joint venture		539,978	453,987
Profit before income tax		11,584,644	8,593,428
Income tax expense	14	(2,176,788)	(2,073,940)
Profit for the year		9,407,856	6,519,488
Attributable to:			
Shareholders of the Company		9,276,520	6,270,612
Non-controlling interests		131,336	248,876
		9,407,856	6,519,488
Basic and diluted earnings per share (in Renminbi per share)	16	1.30	0.88

The notes on pages F-12 to F-122 form part of these financial statements.

Consolidated statements of profit or loss and other comprehensive income
For the years ended 31 December 2016 and 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Profit for the year		<u>9,407,856</u>	<u>6,519,488</u>
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
—Net changes in fair value		1,756,408	1,450,207
—Reclassified to profit or loss		(4,861,492)	(567,296)
Share of other comprehensive income of associates and joint venture		34,436	158,913
Exchange differences on translation of financial statements in foreign currencies		(449,668)	342,910
Income tax impact		802,936	(319,250)
Total other comprehensive income for the year, net of tax	15	<u>(2,717,380)</u>	<u>1,065,484</u>
Total comprehensive income for the year		<u>6,690,476</u>	<u>7,584,972</u>
Attributable to:			
Shareholders of the Company		6,577,001	7,153,916
Non-controlling interests		113,475	431,056
Total		<u>6,690,476</u>	<u>7,584,972</u>

The notes on pages F-12 to F-122 form part of these financial statements.

Consolidated statements of financial position

As at 31 December 2016 and 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2017	2016
Non-current assets			
Property and equipment	17	3,737,471	3,567,451
Investment properties	18	844,705	1,130,268
Goodwill	19	1,971,722	2,091,252
Other intangible assets	20	5,137,749	5,509,024
Interest in associates	22	8,895,908	3,075,521
Interest in joint venture	23	—	301,756
Held-to-maturity investments	24	—	5,000
Available-for-sale financial assets	25	29,766,929	31,218,115
Financial assets held under resale agreements	26	8,424,304	8,930,396
Financial assets at fair value through profit or loss	27	1,796,667	1,294,444
Refundable deposits	28	7,302,285	8,158,628
Deferred tax assets	29	472,556	556,094
Other non-current assets	30	81,047	79,070
Total non-current assets		<u>68,431,343</u>	<u>65,917,019</u>
Current assets			
Accounts receivable	31	1,980,337	991,413
Other receivables and prepayments	32	6,259,561	5,070,483
Margin accounts receivable	33	59,991,454	56,605,104
Available-for-sale financial assets	25	14,816,239	12,518,447
Financial assets held under resale agreements	26	53,381,011	37,400,786
Financial assets at fair value through profit or loss	27	82,753,755	81,812,787
Derivative financial assets	34	391,714	106,591
Clearing settlement funds	35	1,147,448	1,228,801
Cash held on behalf of brokerage clients	36	65,303,548	94,568,934
Cash and bank balances	37	27,026,130	45,230,032
Total current assets		<u>313,051,197</u>	<u>335,533,378</u>
Total assets		<u>381,482,540</u>	<u>401,450,397</u>

The notes on pages F-12 to F-122 form part of these financial statements.

Consolidated statements of financial position
As at 31 December 2016 and 2017 (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2017	2016
Current liabilities			
Short-term bank loans	39	—	460,255
Short-term debt instruments issued	40	26,656,010	1,621,000
Placements from other financial institutions	41	7,029,998	6,650,000
Accounts payable to brokerage clients	42	67,335,545	92,728,837
Employee benefits payable	43	2,668,777	2,517,090
Other payables and accruals	44	62,615,235	79,671,695
Current tax liabilities		433,551	495,647
Financial assets sold under repurchase agreements	45	23,921,537	19,463,375
Financial liabilities at fair value through profit or loss	46	12,035,660	2,756,267
Derivative financial liabilities	34	1,642,283	864,011
Long-term bonds due within one year	47	21,597,480	25,900,000
Total current liabilities		<u>225,936,076</u>	<u>233,128,177</u>
Net current assets		<u>87,115,121</u>	<u>102,405,201</u>
Total assets less current liabilities		<u>155,546,464</u>	<u>168,322,220</u>
Non-current liabilities			
Long-term bonds	48	55,600,796	49,947,816
Non-current employee benefits payable	43	6,078,642	4,988,352
Deferred tax liabilities	29	1,931,446	2,562,144
Financial assets sold under repurchase agreements	45	1,000,000	—
Financial liabilities at fair value through profit or loss	46	2,345,668	25,163,711
Total non-current liabilities		<u>66,956,552</u>	<u>82,662,023</u>
Net assets		<u>88,589,912</u>	<u>85,660,197</u>
Equity			
Share capital	49	7,162,769	7,162,769
Reserves	49	61,195,954	60,999,752
Retained profits	49	18,977,215	16,194,936
Total equity attributable to shareholders of the Company		87,335,938	84,357,457
Non-controlling interests		1,253,974	1,302,740
Total equity		<u>88,589,912</u>	<u>85,660,197</u>

Approved and authorised for issue by the board of directors on 11 June 2019.

Zhou Yi

Chairman of the Board,
Executive director and President

Chen Chuanming

Director

The notes on pages F-12 to F-122 form part of these financial statements.

Consolidated statements of changes in equity
For the years ended 31 December 2016 and 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company							Non-controlling interests	Total equity
	Share capital (Note 49)	Capital reserve (Note 49)	Surplus reserve (Note 49)	Reserves			Retained profits		
				General reserve (Note 49)	Fair value reserve (Note 49)	Translation reserve (Note 49)			
As at 1 January 2017	7,162,769	45,837,763	3,071,195	7,943,619	3,775,704	371,471	16,194,936	1,302,740	85,660,197
Changes in equity for 2017									
Profit for the year	—	—	—	—	—	—	9,276,520	131,336	9,407,856
Other comprehensive income	—	—	—	—	(2,250,054)	(449,465)	—	(17,861)	(2,717,380)
Total comprehensive income	—	—	—	—	(2,250,054)	(449,465)	9,276,520	113,475	6,690,476
Capital injection by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	265,233	265,233
Recognition on disposal of subsidiaries	—	(17,136)	—	—	—	—	—	(425,854)	(442,990)
Appropriation to surplus reserve	—	—	848,293	—	—	—	(848,293)	—	—
Appropriation to general reserve	—	—	—	2,064,564	—	—	(2,064,564)	—	—
Dividends declared for the year	—	—	—	—	—	—	(3,581,384)	(1,620)	(3,583,004)
As at 31 December 2017	7,162,769	45,820,627	3,919,488	10,008,183	1,525,650	(77,994)	18,977,215	1,253,974	88,589,912

The notes on pages F-12 to F-122 form part of these financial statements.

Consolidated statements of changes in equity

	Reserves						Total	Non-controlling interests	Total equity
	Share capital (Note 49)	Capital reserve (Note 49)	Surplus reserve (Note 49)	General reserve (Note 49)	Fair value reserve (Note 49)	Translation reserve (Note 49)	Retained profits		
As at 1 January 2016	7,162,769	45,837,763	2,607,376	6,681,123	3,237,861	26,010	15,232,023	743,846	81,528,771
Changes in equity for 2016									
Profit for the year	—	—	—	—	—	—	6,270,612	248,876	6,519,488
Other comprehensive income	—	—	—	—	537,843	345,461	—	182,180	1,065,484
Total comprehensive income	—	—	—	—	537,843	345,461	6,270,612	431,056	7,584,972
Capital injection by non-controlling shareholders of subsidiaries									
Acquisition of subsidiaries	—	—	—	—	—	—	—	67,723	67,723
Appropriation to surplus reserve	—	—	463,819	—	—	—	(463,819)	60,115	60,115
Appropriation to general reserve	—	—	—	1,262,496	—	—	(1,262,496)	—	—
Dividends declared for the year	—	—	—	—	—	—	(3,581,384)	—	(3,581,384)
As at 31 December 2016	7,162,769	45,837,763	3,071,195	7,943,619	3,775,704	371,471	16,194,936	1,302,740	85,660,197

The notes on pages F-12 to F-122 form part of these financial statements.

Consolidated cash flow statements

For the years ended 31 December 2016 and 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2017	2016
Cash flows from operating activities:			
Profit before income tax		11,584,644	8,593,428
Adjustments for:			
Interest expenses		5,749,099	5,393,487
Share of profit of associates and joint venture		(539,978)	(453,987)
Depreciation and amortisation expenses		566,306	408,527
Provision for/(reversal of) impairment losses		259,030	(36,753)
Net gains on disposal of property and equipment and intangible assets		(6,949)	(8,916)
Foreign exchange losses		38,040	14,427
Net realised gains from available-for-sale financial assets and other investments		(4,219,420)	(1,459,893)
Dividend income and interest income from available-for-sale financial assets and held-to-maturity investments		(645,207)	(248,366)
Unrealised fair value changes in financial instruments through profit or loss		(137,296)	1,754,349
Unrealised fair value changes in derivatives		467,963	(1,334,949)
Operating cash flows before movements in working capital		13,116,232	12,621,354
Decrease /(increase) in refundable deposits		856,343	(2,149,328)
(Increase)/decrease in margin accounts receivable		(3,467,433)	10,827,660
Increase in accounts receivables, other receivables and prepayments		(2,264,006)	(1,171,798)
Increase in financial assets held under resale agreements		(9,983,253)	(14,751,970)
(Increase)/decrease in financial instruments at fair value through profit or loss		(7,410,200)	48,771,961
Decrease /(increase) in restricted bank deposits		12,486,730	(104,963)
Decrease in cash held on behalf of brokerage clients		29,265,386	37,375,590
Decrease in accounts payable to brokerage clients		(25,393,292)	(35,638,542)
Decrease in other payables and accruals		(17,366,962)	(19,187,901)
Increase in employee benefits payable and other non-current liabilities		1,241,977	1,331,035
Increase/(decrease) in financial assets sold under repurchase agreements		5,458,162	(13,728,644)
Increase in placements from other financial institutions		379,998	3,650,000
Cash (used in)/generated from operations		(3,080,318)	27,844,454
Income taxes paid		(1,802,203)	(3,942,617)
Interest paid		(1,844,354)	(1,881,975)
Net cash (used in)/generated from operating activities		(6,726,875)	22,019,862

The notes on pages F-12 to F-122 form part of these financial statements.

Consolidated cash flow statements

For the years ended 31 December 2016 and 2017 (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	2017	2016
Cash flows from investing activities:			
Proceeds on disposal of property and equipment		41,401	16,393
Dividends received from associates		229,819	211,000
Dividends and interest received from available-for-sale financial assets and other investments		645,207	248,366
(Decrease) /increase of other limited partners' interest in private funds		(285,866)	4,227,328
Proceeds on disposal of available-for-sale financial assets		531,134	1,459,893
Proceeds on disposal of an associate		—	35,006
Cash paid for acquisition of subsidiaries, net of cash and bank balances acquired		—	(4,885,017)
Cash paid for disposal of subsidiaries, net of cash and bank balances decreased		(840,724)	—
Purchases of property and equipment, investment properties, other intangible assets and other non-current assets		(377,634)	(600,368)
Purchases of associates and joint venture		(11,425)	(336,550)
Purchases of available-for-sale financial assets		(12,199,858)	(4,838,702)
Net cash used in investing activities		(12,267,946)	(4,462,651)
Cash flows from financing activities:			
Capital injection from non-controlling shareholders		265,233	67,723
Proceeds from issuance of short-term debt instruments		42,258,270	5,035,260
Proceeds from issuance of long-term bonds		31,000,000	29,180,000
Repayment of bank loans		(471,065)	(756,381)
Repayment of debt securities issued		(46,723,260)	(30,837,709)
Short-term debt instruments interest paid		(220,186)	(82,636)
Long-term bonds interest paid		(3,431,905)	(3,911,396)
Dividends paid		(3,583,004)	(3,581,384)
Payment for other financing activities		(4,316)	(123,140)
Net cash generated from/(used in) financing activities	38(b)	19,089,767	(5,009,663)
Net increase in cash and cash equivalents		94,946	12,547,548
Cash and cash equivalents at the beginning of the year		31,651,614	18,595,759
Effect of foreign exchange rate changes		(367,975)	508,307
Cash and cash equivalents at the end of the year	38(a)	31,378,585	31,651,614

The notes on pages F-12 to F-122 form part of these financial statements.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 General information

Huatai Securities Co., Ltd. (the “Company”), formerly known as Jiangsu Securities Company, was approved by the People’s Bank of China (“PBOC”), and registered with the Administration for Industry and Commerce of Jiangsu Province on 9 April 1991, with a registered capital of RMB10 million. The Company was renamed as Huatai Securities Limited Liability Company on 21 December 1999 and then renamed as Huatai Securities Co., Ltd. on 7 December 2007 as a result of the conversion into a joint stock limited liability company.

The Company publicly issued RMB784,561 thousand ordinary shares (A shares) in February 2010, and was listed on the Shanghai Stock Exchange on 26 February 2010.

In June 2015, the Company issued RMB1,562,769 thousand H shares, which were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

As at 31 December 2017, the Company’s registered capital was RMB7,162,769 thousand and the Company has a total of 7,162,769 thousand issued shares of RMB1 each.

The Company and its subsidiaries (the “Group”) principally engaged in securities brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment advisory, asset management, margin financing and securities lending, agency sale of financial products, intermediary introduction business for the futures companies, agency sale and custody of securities investment fund, mutual fund management, brokerage of spot contracts for precious metal such as gold, proprietary trading of spot contract for gold, direct investment business, alternative investment business, stock option market making, futures brokerage business and other business activities as approved by the China Securities Regulatory Commission (“CSRC”).

2 Significant accounting policies

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards and related interpretations promulgated by the International Accounting Standards Board (the “IASB”). A summary of the significant accounting policies adopted by the Group are set out below.

The IASB has issued a number of new and revised IFRSs that are first effective for the current accounting period of the Group. Note 2(3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended 31 December 2017 are set out in Note 58.

(2) Basis of preparation of the financial statements

The financial statements has been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: financial derivatives, non-derivative financial

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(2) Basis of preparation of the financial statements (continued)

assets and liabilities at fair value through profit or loss and available-for-sale financial assets. The methods used to measure fair value are discussed further in Note 2(8).

The financial statements is presented in Renminbi (“RMB”), which is the functional currency of the Group. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated. The Group translates the financial statements of subsidiaries from their respective functional currencies into the Group’s functional currency if the subsidiaries’ functional currencies are not the same as that of the Group.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(28).

(3) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these have significant impact on the accounting policies of the Group.

However, additional disclosure has been included in Note 38(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(4) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(4) Basis of consolidation (continued)

(i) Subsidiaries and non-controlling interests (continued)

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability.

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(8)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(4) (ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(15)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Associates and joint ventures

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

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

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(4) Basis of consolidation (continued)

(ii) Associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(5) and (15)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(8)).

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

(5) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Goodwill (continued)

- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(15)).

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

(6) Foreign currency

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

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

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income in capital reserve.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of reporting period. The equity items, excluding "retained profits", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

(8) Financial instruments

(i) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognised in profit or loss.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(i) Recognition and measurement of financial assets and financial liabilities (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 2(8)(iii)).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

- those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or
- those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 2(8)(iii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend (see Note 2(22)(vi)). Impairment losses are recognised in profit or loss (see Note 2(8)(iii)).

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(i) Recognition and measurement of financial assets and financial liabilities (continued)

Other fair value changes, other than impairment losses (see Note 2(8)(iii)), are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the reporting period. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(iii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the reporting period to determine whether

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(iii) Impairment of financial assets (continued)

there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to:

- significant financial difficulty of the borrower or issuer;
- a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties of the issuer;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loans and receivables

The Group assesses impairment losses on a collective basis. Loans and receivables are grouped for similar ageing characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(iii) Impairment of financial assets (continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. The Group generally considers a significant decline to be one in which the fair value is below its original cost by 50% or more or a prolonged decline to be one in which fair value is below cost in declining trend for 12 months or longer, upon which impairment loss is recognised. The Group also takes into consideration of other specific relevant factors through the whole investing period when assessing whether there is objective evidence that the available-for-sale equity investment is under a significant or prolonged decline in the fair value.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investment increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities (continued)

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vi) Equity instruments

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Group. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

(vii) Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(viii) Asset-backed securities

The Group securitises the financial assets, which generally results in the sale of these financial assets to structured entities. The structured entities in turn issue asset-backed securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, or other residual interests. For asset securitisation business, the Group has applied the accounting policies set out in Note 2(4) when assessing consolidation of the structured entities and applied the accounting policies described in Note 2(8)(iv) when assessing whether or not to derecognise the transferred financial assets.

(9) Margin financing and securities lending

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

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

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

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

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

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(11) Investments in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(4).

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(11) Investments in subsidiaries (continued)

In the Company's statements of financial position, investments in subsidiaries are accounted for using the cost method. The investment is stated at cost less impairment loss (Note 2(15)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

(12) Property and equipment and construction in progress

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(12) Property and equipment and construction in progress (continued)

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

<u>Types of assets</u>	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Depreciation rates</u>
Buildings	30-50 years	3%	1.94%-3.23%
Motor vehicles	3-8 years	3%	12.13%-32.33%
Electronic equipment	5 years	3%	19.40%
Furniture and fixtures	2-5 years	3%	19.40%-48.50%

No depreciation is provided in respect of construction in progress. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(13) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for using the cost model and stated in the financial statements at cost less accumulated depreciation, and impairment losses (see Note 2(15)). The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale.

	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Depreciation rates</u>
Investment property	30-35 years	3%	2.77%-3.23%

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(14) Other intangible assets

Intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment loss (see Note 2(15)). For an intangible asset with finite useful life, its cost less impairment loss is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

<u>Types of assets</u>	<u>Estimated useful lives</u>
Existing relationships with broker-dealers	Indefinite
Land-use right	50 years
Trade names	20 years
Software and others	2-20 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

(15) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each reporting date to determine whether there is any indication of impairment:

- property and equipment
- investment property
- other intangible assets
- equity investment in subsidiaries, associates and joint venture
- goodwill
- leasehold improvements and long-term deferred expenses

If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(15) Impairment of non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(16) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on corporate bonds, which have a credit rating of at least AA from rating agency, that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(17) Share-based payments

(i) Classification of share-based payments

Share-based payment transactions in the Group are cash-settled share-based payments.

(ii) Accounting treatment of share-based payments

- cash-settled share-based payments

Where the Group receives services from employees by incurring a liability to deliver cash or other assets for amounts that are determined based on the price of shares or other equity instruments, the service received from employees is measured at the fair value of the liability incurred. If a cash-settled share-based payment do not vest until the completion of services for a period, or until the achievement of a specified performance condition, the Group recognises costs or expenses as services are received, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting. Until the liability is settled, the Group will remeasure the fair value of the liability at each balance sheet date and at the date of settlement, with changes recognised in profit or loss for the current period.

When the Group receives services and has the obligation to settle the transaction, but the relevant equity instruments are issued by the Company's ultimate parent or its subsidiaries outside the Group, the Group classifies the transaction as cash-settled.

(18) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(18) Income tax (continued)

(ii) Deferred tax (continued)

- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(19) Operating leases

(i) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(19) Operating leases (continued)

(ii) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 2(12)(iii). Impairment losses are recognised in accordance with the accounting policies described in Note 2(15). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income in the accounting period in which they are earned.

(20) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(21) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

(22) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

(i) Commission income from brokerage business

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(22) Revenue recognition (continued)

(ii) Underwriting and sponsor fees

Underwriting and sponsor fees are recognised when the obligation of underwriting or sponsorship is completed, that is, the economic interests may flow into the Group and the relevant revenue and costs may be calculated reliably.

(iii) Advisory fees

Revenue arising from advisory services is recognised on completion of such services.

(iv) Asset management fees

Asset management fees are recognised when the Group is entitled to receive the income under the asset management agreement.

(v) Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

(vi) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity investments.

(vii) Other income

Other income is recognised on an accrual basis.

(23) Expenses recognition

(i) Commission expenses

Commission expenses relate mainly to transactions, which are recognised as expenses when the services are received.

(ii) Interest expenses

Interest expenses are recognised based on the principal outstanding and at the effective interest rate applicable.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(23) Expenses recognition (continued)

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(iv) Other expenses

Other expenses are recognised on an accrual basis.

(24) Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the reporting period, are not recognised as a liability at the end of the reporting period but disclosed in the notes to the financial statements separately.

(25) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

(26) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

- (1) has control or joint control over the Group;**
- (2) has significant influence over the Group; or**
- (3) is a member of the key management personnel of the Group or the Group's parent.**

(ii) An entity is related to the Group if any of the following conditions applies:

- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).**
- (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).**

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(26) Related parties (continued)

- (ii) An entity is related to the Group if any of the following conditions applies (continued):
- (3) Both entities are joint ventures of the same third party.
 - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (6) The entity is controlled or jointly controlled by a person identified in (i).
 - (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(27) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, financial performance and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each product and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

(28) Significant accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(28) Significant accounting estimates and judgements (continued)

(i) Fair value of financial instruments

As indicated in Note 2(8)(i), financial instruments at fair value through profit or loss and available-for-sale investments are measured at fair value at the end of the year and it is usually possible to determine their fair values within a reasonable range of estimates.

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2(8)(ii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(ii) Impairment of available-for-sale financial assets

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets, we assess periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgement which would affect the amount of impairment losses.

(iii) Impairment of capital-based intermediary businesses

The Group reviews the capital-based intermediary businesses (including margin financing and securities lending, securities-backed lending and stock repurchase) to assess the impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is an objective evidence of impairment. The Group makes an estimate of the value of the collaterals received from the customers firstly on an individual basis, then on a collective basis in determining the impairment. The methodology and assumptions used for estimating impairment of capital-based intermediary businesses are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(iv) Impairment of receivables

Receivables that are measured at amortised cost are reviewed at each end of reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor and other factors. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(28) Significant accounting estimates and judgements (continued)

(v) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(vi) Depreciation and amortisation

Property and equipment, investment property, intangible assets, leasehold improvements and long-term deferred expenses are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(vii) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(viii) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(28) Significant accounting estimates and judgements (continued)

(viii) Determination of consolidation scope (continued)

affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset management schemes where the Group involves as the manager or investment consultant, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the Group is a principal. The asset management scheme shall be consolidated if the Group acts in the role of principal.

3 Taxation

The Group's main applicable taxes and tax rates are as follows:

<u>Tax type</u>	<u>Tax basis</u>	<u>Tax rate</u>
Value-added tax (VAT) . . .	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period.	3%-17% ⁽ⁱ⁾
Business tax	Based on taxable revenue before 1 May 2016. According to Caishui [2016] No. 36, jointly issued by Ministry of Finance of the People's Republic of China and the State Administration of Taxation, all taxpayers subject to business tax in the Mainland China are included in the scope of the VAT pilot scheme. Effective from 1 May 2016, those taxpayers are required to pay VAT in lieu of business tax.	5%
City maintenance and construction tax	Based on business tax and value added tax paid	1%-7%
Education surcharge	Based on business tax and value added tax paid	2%-3%
Income tax	Based on taxable profits	25% ⁽ⁱⁱ⁾

(i) According to Notice on Clarifying VAT Policies for Financial Services, Real Estate Development, and Educational Ancillary Services (Cai Shui [2016] No. 140), Supplementary Notice on Issues concerning VAT Policies for Asset Management Products (Cai Shui [2017] No. 2) and Notice on Issues Relating to VAT on Fund Management Products (Cai Shui [2017] No. 56) issued by the Ministry of Finance and State Administration of Taxation, effective from 1 January 2018, the simple tax computation method shall apply in the interim to VAT taxable acts arising in the course of operation of fund management products by managers of fund management products (hereinafter referred to as the "managers"), and VAT shall be payable in accordance with the 3% levy rate.

(ii) The income tax rate applicable to the Company and its domestic subsidiaries is 25% (2016:25%). The income tax rate applicable to subsidiaries in Hong Kong is 16.5% (2016:16.5%). Pursuant to the Tax Cuts and Jobs Act of 2017 signed into law on 22 December 2017, the corporate income tax rate applicable to subsidiaries in the United States is reduced from a maximum marginal rate of 35% to a flat 21% rate, effective from 1 January 2018. Taxes of other overseas subsidiaries are charged at the relevant local rates.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***4 Fee and commission income**

	Year ended 31 December	
	2017	2016
Income from securities brokerage and advisory business	5,834,535	7,669,113
Income from asset management business	4,210,180	1,168,405
Income from underwriting and sponsorship business	1,175,244	1,512,620
Income from financial advisory business	905,021	659,409
Income from futures brokerage business	727,529	277,219
Other commission income	73,845	123,152
Total	<u>12,926,354</u>	<u>11,409,918</u>

5 Interest income

	Year ended 31 December	
	2017	2016
Interest income from margin financing and securities lending	4,179,059	4,283,385
Interest income from financial institutions	2,820,669	3,130,245
Interest income from securities-backed lending	2,085,663	1,390,201
Interest income from other financial assets held under resale agreements	212,135	54,468
Others	51,397	19,647
Total	<u>9,348,923</u>	<u>8,877,946</u>

6 Net investment gains

	Year ended 31 December	
	2017	2016
Net realised gains from disposal of available-for-sale financial assets	4,219,420	1,459,893
Dividend income and interest income from available-for-sale financial assets	644,888	248,145
Net realised losses from disposal of financial instruments at fair value through profit or loss	(120,405)	(1,198,505)
Dividend income and interest income from financial instruments at fair value through profit or loss	2,401,833	2,414,998
Net realised gains from disposal of derivative financial instruments	497,798	1,391,067
Interest income from held-to-maturity investments	319	221
Unrealised fair value changes of financial instruments at fair value through profit or loss	137,296	(1,754,349)
Unrealised fair value changes of derivative financial instruments	(478,899)	1,414,645
Total	<u>7,302,250</u>	<u>3,976,115</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

7 Other income and gains

	Year ended 31 December	
	2017	2016
Government grants ⁽ⁱ⁾	67,671	169,279
Rental income	80,891	68,410
Income from commodity sales	2,706	11,277
Gains on disposal of property and equipment	8,379	10,989
Excess of interest in the fair value of investee's identifiable net assets over investment costs of associates ventures acquired ⁽ⁱⁱ⁾	752,555	—
Gains on previously held interest in subsidiaries and joint venture upon loss of control ⁽ⁱⁱⁱ⁾	725,306	—
Foreign exchange losses	(38,040)	(14,427)
Others	146,377	122,121
Total	1,745,845	367,649

- (i) The government grants were received unconditionally by the Company and its subsidiaries from the local government where they reside.
- (ii) The Group has changed the accounting treatment of equity investment in Bank of Jiangsu Co., Ltd ("Bank of Jiangsu") from available-for-sale financial assets to interest in associates using the equity method in 2017 (see Note 22(i)). Other income and gains amounting to RMB752,555 thousand arose due to the excess of the Group's share of the net fair value of identifiable assets and liabilities of the associates over the investment cost at the date of accounting treatment change.
- (iii) Gains on previously held interest in subsidiaries and joint venture upon loss of control mainly attributable to the Group's loss of control of Huatai Ruilian Fund Management Co., Ltd ("Huatai Ruilian") (see Note 21(c)). In this connection, the Group recognised other income and gains, which was resulted from the Group's previously recognised equity in relation to Huatai Ruilian.

8 Fee and commission expenses

	Year ended 31 December	
	2017	2016
Expenses for asset management business	1,904,344	128,068
Expenses for securities brokerage and advisory business	1,838,785	2,335,713
Expenses for futures brokerage business	455,573	15,945
Expenses for underwriting and sponsorship business	41,754	53,102
Expenses for financial advisory business	—	21,879
Other commission expenses	3,740	6,958
Total	4,244,196	2,561,665

9 Interest expenses

	Year ended 31 December	
	2017	2016
Interest expenses on long-term bonds	3,407,715	3,294,413
Interest expenses on financial assets sold under repurchase agreements	861,801	974,341
Interest expenses on short-term debt instruments issued	521,294	78,645
Interest expenses on placements	302,801	154,971
Interest expenses of accounts payable to brokerage clients	301,309	436,754
Interest expenses on gold leasing	279,650	372,060
Interest expenses on short-term bank loans	10,810	27,640
Interest expenses on long-term bank loans	—	15,009
Others	63,719	39,654
Total	5,749,099	5,393,487

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***10 Staff costs**

	Note	Year ended 31 December	
		2017	2016
Salaries, bonuses and allowances		6,126,921	5,047,574
Contribution to pension schemes		455,225	188,885
Cash-settled share-based payment expenses	43(a)	24,812	3,646
Other social welfare		423,238	408,315
Total		<u>7,030,196</u>	<u>5,648,420</u>

The domestic employees of the Group in the PRC participate in social plans, including pension, medical, housing, and other welfare benefits, organised and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labour and social welfare authorities. The contributions to the social security plans are expensed as incurred.

11 Depreciation and amortisation expenses

	Year ended 31 December	
	2017	2016
Amortisation of other intangible assets	283,373	131,616
Depreciation of property and equipment	211,232	194,049
Amortisation of leasehold improvements and long-term deferred expenses	38,514	43,783
Depreciation of investment properties	33,187	39,079
Total	<u>566,306</u>	<u>408,527</u>

12 Other operating expenses

	Year ended 31 December	
	2017	2016
Rental expenses	301,391	246,301
Products distribution expenses	175,498	104,699
Stock exchange fees	167,906	177,162
Marketing, advertising and promotion expenses	166,972	143,587
Business travel expenses	152,645	111,451
Postal and communication expenses	141,475	137,622
Securities investor protection funds	135,343	241,871
IT expenses	133,649	95,876
Business entertainment expenses	113,833	105,286
Consulting fees	112,929	152,115
Utilities	49,898	40,007
Auditors' remuneration	14,598	9,969
Others	611,334	500,282
Total	<u>2,277,471</u>	<u>2,066,228</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

13 Provision for/(reversal of) impairment losses

	Year ended 31 December	
	2017	2016
Provision for/(reversal of) impairment losses against margin accounts receivable	81,083	(646)
Provision for/(reversal of) impairment losses against other receivables and prepayments	75,443	(54,499)
Provision for impairment losses available-for-sale financial assets	57,327	—
Provision for impairment losses against financial assets held under resale agreements	34,616	15,618
Provision for impairment losses against accounts receivable	10,561	2,774
Total	259,030	(36,753)

14 Income tax expense

(a) Taxation in the consolidated income statements represents:

	Year ended 31 December	
	2017	2016
Current income tax		
—Mainland China	1,815,410	2,074,627
—Hong Kong	5,637	(131,814)
—Overseas	58,576	2,700
	1,879,623	1,945,513
Adjustment in respect of prior years		
—Mainland China	(5,619)	(6,472)
—Hong Kong	—	—
—Overseas	—	—
	(5,619)	(6,472)
Deferred tax		
Origination and reversal of temporary differences	302,784	134,899
Total	2,176,788	2,073,940

(b) Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December	
	2017	2016
Profit before income tax	11,584,644	8,593,428
National tax calculated using the PRC statutory tax rate	2,896,161	2,148,357
Tax effect of non-deductible expenses	30,584	33,977
Tax effect of non-taxable income	(252,721)	(202,440)
Tax effect of unused tax losses not recognised	112,845	100,636
Effect of different tax rates of the subsidiaries	9,479	(672)
Deferred tax re-pricing due to U.S. tax reform ⁽ⁱ⁾	(619,398)	—
Adjustment for prior years	(5,619)	(6,472)
Others	5,457	554
Actual income tax expense	2,176,788	2,073,940

(i) The Tax Cuts and Jobs Act (TCJA) of 2017 was signed into law on 22 December 2017 in the United States. The federal corporate income tax rate is reduced from a maximum marginal rate of 35% to a flat 21% rate. As a result, deferred tax assets and liabilities were revalued using the enacted tax rate of 21% for the Group's subsidiaries in the United States, and the total tax effect on deferred tax balances was a tax benefit.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

15 Other comprehensive income

	Year ended 31 December 2017		
	Before tax	Tax (expense) /benefit	Net of tax
Available-for-sale financial assets			
—Net changes in fair value	1,756,408	(417,546)	1,338,862
—Reclassified to profit or loss	(4,861,492)	1,213,285	(3,648,207)
Share of other comprehensive income of associates and joint venture	34,436	7,197	41,633
Exchange differences on translation of financial statements in foreign currencies	(449,668)	—	(449,668)
Total	<u>(3,520,316)</u>	<u>802,936</u>	<u>(2,717,380)</u>
	Year ended 31 December 2016		
	Before tax	Tax (expense) /benefit	Net of tax
Available-for-sale financial assets			
—Net changes in fair value	1,450,207	(414,117)	1,036,090
—Reclassified to profit or loss	(567,296)	141,824	(425,472)
Share of other comprehensive income of associates and joint venture	158,913	(46,957)	111,956
Exchange differences on translation of financial statements in foreign currencies	342,910	—	342,910
Total	<u>1,384,734</u>	<u>(319,250)</u>	<u>1,065,484</u>

16 Basic and diluted earnings per share

	Note	Year ended 31 December	
		2017	2016
Profit attributable to shareholders of the Company		<u>9,276,520</u>	<u>6,270,612</u>
Weighted average number of ordinary shares (in thousands)	16(a)	<u>7,162,769</u>	<u>7,162,769</u>
Basic and diluted earnings per share attributable to equity shareholders (in Renminbi per share)		<u>1.30</u>	<u>0.88</u>

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the period.

(a) Weighted average number of ordinary shares (in thousands)

	Year ended 31 December	
	2017	2016
Number of ordinary shares as at 1 January	7,162,769	7,162,769
Increase in weighted average number of ordinary shares	—	—
Weighted average number of ordinary shares	<u>7,162,769</u>	<u>7,162,769</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Property and equipment

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electric equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
As at 1 January 2017	3,500,382	152,749	651,065	130,826	63,041	4,498,063
Additions	2,819	3,023	78,045	13,665	41,758	139,310
Transfer during the year						
(Note 30)	41,027	—	—	—	(45,312)	(4,285)
Transfer in from investment properties (Note 18)	284,147	—	—	—	—	284,147
Disposals	(4,875)	(2,635)	(53,008)	(12,771)	—	(73,289)
As at 31 December 2017	<u>3,823,500</u>	<u>153,137</u>	<u>676,102</u>	<u>131,720</u>	<u>59,487</u>	<u>4,843,946</u>
Accumulated depreciation						
As at 1 January 2017	(360,682)	(114,628)	(388,647)	(66,655)	—	(930,612)
Charge for the year	(102,872)	(11,181)	(80,627)	(16,552)	—	(211,232)
Transfer in from investment properties (Note 18)	(31,194)	—	—	—	—	(31,194)
Disposals	1,248	2,057	52,015	11,243	—	66,563
As at 31 December 2017	<u>(493,500)</u>	<u>(123,752)</u>	<u>(417,259)</u>	<u>(71,964)</u>	<u>—</u>	<u>(1,106,475)</u>
Carrying amount						
As at 31 December 2017	<u>3,330,000</u>	<u>29,385</u>	<u>258,843</u>	<u>59,756</u>	<u>59,487</u>	<u>3,737,471</u>
	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electric equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
As at 1 January 2016	2,572,138	150,655	610,791	78,998	761,146	4,173,728
Additions	—	5,775	81,907	19,336	121,076	228,094
Acquisition of subsidiaries	—	—	17,036	23,415	—	40,451
Transfer during the year						
(Note 30)	776,371	—	—	17,962	(819,181)	(24,848)
Transfer in from investment properties (Note 18)	153,595	—	—	—	—	153,595
Disposals	(1,722)	(3,681)	(58,669)	(8,885)	—	(72,957)
As at 31 December 2016	<u>3,500,382</u>	<u>152,749</u>	<u>651,065</u>	<u>130,826</u>	<u>63,041</u>	<u>4,498,063</u>
Accumulated depreciation						
As at 1 January 2016	(260,089)	(106,741)	(365,945)	(61,935)	—	(794,710)
Charge for the year	(93,719)	(11,360)	(75,745)	(13,225)	—	(194,049)
Transfer in from investment properties (Note 18)	(7,744)	—	—	—	—	(7,744)
Disposals	870	3,473	53,043	8,505	—	65,891
As at 31 December 2016	<u>(360,682)</u>	<u>(114,628)</u>	<u>(388,647)</u>	<u>(66,655)</u>	<u>—</u>	<u>(930,612)</u>
Carrying amount						
As at 31 December 2016	<u>3,139,700</u>	<u>38,121</u>	<u>262,418</u>	<u>64,171</u>	<u>63,041</u>	<u>3,567,451</u>

As at 31 December 2017 and 31 December 2016, included in buildings, there is a carrying amount of RMB38,308 thousand and RMB39,993 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

18 Investment properties

	<u>2017</u>	<u>2016</u>
Cost		
As at 1 January	1,367,892	1,508,102
Additions	577	14,068
Transfer to property and equipment (Note 17)	(284,147)	(153,595)
Disposals	—	(683)
As at 31 December	<u>1,084,322</u>	<u>1,367,892</u>
Accumulated depreciation		
As at 1 January	(233,077)	(202,024)
Charge for the year	(33,187)	(39,079)
Transfer to property and equipment (Note 17)	31,194	7,744
Disposals	—	282
As at 31 December	<u>(235,070)</u>	<u>(233,077)</u>
Impairment		
As at 1 January	(4,547)	(4,547)
Impairment losses of the year	—	—
As at 31 December	<u>(4,547)</u>	<u>(4,547)</u>
Carrying amount	<u>844,705</u>	<u>1,130,268</u>

As at 31 December 2017 and 31 December 2016, included in investment properties, there is a carrying amount of RMB136,525 thousand and RMB142,287 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

19 Goodwill

	<u>As at 31 December</u>	
	<u>2017</u>	<u>2016</u>
Cost	2,040,399	2,040,399
Effect of exchange rate changes for cost	(68,677)	50,853
Less: Provision for impairment losses	—	—
Carrying amount	<u>1,971,722</u>	<u>2,091,252</u>

Impairment testing on goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

	<u>As at 31 December</u>	
	<u>2017</u>	<u>2016</u>
Investment banking	51,090	51,090
Futures brokerage	252	252
Overseas asset management	1,920,380	2,039,910
Total	<u>1,971,722</u>	<u>2,091,252</u>

The Group acquired the investment banking business together with the relevant assets and liabilities, and the interest in Huatai United Securities Co., Ltd. in 2006. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the investment banking CGU.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Goodwill (continued)

The Group acquired the futures brokerage business together with the relevant assets and liabilities, and the interest in Huatai Futures Co., Ltd. (previously known as Huatai Great Wall Futures Co., Ltd.) in 2006. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage CGU.

The Group acquired the overseas asset management business together with the relevant assets and liabilities, and the interest in AssetMark Financial Holdings, Inc. in 2016. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the overseas asset management CGU.

The cash flows generated from each subsidiary acquired are independent from those of the other subsidiaries of the Group. Therefore, each of these acquired subsidiaries is a separate CGU. Management considered that the synergies arising from each acquisition mainly benefited the corresponding acquired subsidiary. Therefore, in performing the impairment test, the goodwill generated from each acquisition is allocated to the corresponding subsidiary acquired.

(i) Investment banking and futures brokerage CGU

The recoverable amounts of each CGU are determined based on value-in-use calculations respectively. These calculations use cash flow projections with reference to financial budgets approved by management covering certain period. Cash-flows beyond the certain period are extrapolated using an estimated weighted average growth rate, which does not exceed the long-term average growth rate for the business in which the CGU operates and reflected specific risks related to the CGU. Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include budgeted income and profit margins, such estimation is based on the CGU's past performance and management's expectations for the market development.

(ii) Overseas asset management CGU

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation using cash flow projection based on a financial budget covering a 14-year period approved by management. The discount rate applied to the cash flow projections is 13%. The growth rate used to extrapolate the cash flows of the above cash-generating units beyond the 14-year period is 3.5%. Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include budgeted revenue and profit margins, such estimation is based on the CGU's past performance and management's expectations for the market development.

As at 31 December 2017 and 31 December 2016, the Group performed its annual goodwill impairment test. No impairment was recognised for the goodwill related to investment banking CGU, futures brokerage CGU and overseas asset management CGU. The Group believes that appropriate assumptions have been made based on available information. The key assumptions based on the cash flow projections of the asset groups may change, which may cause the recoverable amounts to be over or below its book value.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

20 Other intangible assets

	<u>Land use rights</u>	<u>Existing relationships with broker-dealers</u>	<u>Trade names</u>	<u>Software and others</u>	<u>Total</u>
Cost					
As at 1 January 2017	359,161	3,957,420	317,923	1,427,847	6,062,351
Additions	—	—	—	201,540	201,540
Disposals	—	—	—	(169,849)	(169,849)
Exchange differences	—	(229,789)	(18,460)	(14,038)	(262,287)
As at 31 December 2017	<u>359,161</u>	<u>3,727,631</u>	<u>299,463</u>	<u>1,445,500</u>	<u>5,831,755</u>
Accumulated amortisation					
As at 1 January 2017	(63,731)	—	(2,650)	(486,946)	(553,327)
Charge for the year	(7,196)	—	(18,542)	(257,635)	(283,373)
Disposals	—	—	—	142,123	142,123
Exchange differences	—	—	324	247	571
As at 31 December 2017	<u>(70,927)</u>	<u>—</u>	<u>(20,868)</u>	<u>(602,211)</u>	<u>(694,006)</u>
Carrying amount					
As at 31 December 2017	<u>288,234</u>	<u>3,727,631</u>	<u>278,595</u>	<u>843,289</u>	<u>5,137,749</u>
Cost					
As at 1 January 2016	359,161	—	—	487,863	847,024
Additions	—	—	—	129,711	129,711
Acquisition of subsidiaries	—	3,858,784	309,999	790,317	4,959,100
Other additions	—	98,636	7,924	20,340	126,900
Disposals	—	—	—	(384)	(384)
As at 31 December 2016	<u>359,161</u>	<u>3,957,420</u>	<u>317,923</u>	<u>1,427,847</u>	<u>6,062,351</u>
Accumulated amortisation					
As at 1 January 2016	(56,536)	—	—	(365,520)	(422,056)
Charge for the year	(7,195)	—	(2,650)	(121,771)	(131,616)
Disposals	—	—	—	345	345
As at 31 December 2016	<u>(63,731)</u>	<u>—</u>	<u>(2,650)</u>	<u>(486,946)</u>	<u>(553,327)</u>
Carrying amount					
As at 31 December 2016	<u>295,430</u>	<u>3,957,420</u>	<u>315,273</u>	<u>940,901</u>	<u>5,509,024</u>

Existing relationships with broker-dealers are regarded as having an indefinite useful life and are not amortised because there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

The Group performed its impairment test on the above individual intangible assets based on the judgement of whether the recoverable amounts of the above individual intangible assets can be reliably estimated. The recoverable amounts are determined based on value-in-use calculation. The Group uses cash flow projections with reference to financial budget approved by management covering a 14-year period and the discount rate of 13%. The current rate has reflected the specific risks of the underlying assets. The cash flows for the years beyond the financial budget are estimated at the long-term average growth rate of 3.5%.

Based on management's impairment assessment, no impairment loss was recognised for the year ended 31 December 2017 (2016: Nil).

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries

(a) Details of principal subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of shares held is ordinary, and the issued and fully paid-up capital is expressed in Renminbi Yuan.

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held by the Company as at 31 December		Principal activity	Auditor ⁽¹⁾ GAAP	
			2017	2016		2017	2016
Huatai United Securities Co., Ltd.	PRC 5 September 1997	RMB 997,480,000	99.72%	99.72%	Investment banking	KPMG PRC	KPMG PRC
Huatai Futures Co., Ltd.	PRC 10 July 1995	RMB 1,609,000,000	60.00%	60.00%	Futures brokerage	PRC GAAP	PRC GAAP
Huatai Purple Gold Investment Co., Ltd. ⁽²⁾	PRC 12 August 2008	RMB 4,700,000,000	100.00%	100.00%	Equity investment	KPMG PRC	KPMG PRC
Huatai Financial Holdings (Hong Kong) Limited	Hong Kong 23 November 2006	HKD 8,800,000,000	100.00%	100.00%	Securities and Futures brokerage	KPMG	KPMG
Huatai Innovative Investment Co., Ltd.	PRC 21 November 2013	RMB 500,000,000	100.00%	100.00%	Alternative investment	HKFRSs	HKFRSs
Huatai Securities (Shanghai) Asset Management Co., Ltd.	PRC 16 October 2014	RMB 2,600,000,000	100.00%	100.00%	Asset management	KPMG PRC	KPMG PRC
Huatai Ruilin Equity Management (Limited Partnership) ⁽³⁾⁽⁴⁾	PRC 28 September 2014	RMB 340,000,000	31.00%	31.00%	Equity investment	PRC GAAP	PRC GAAP
Shenzhen Huatai Ruilin NO.1 Equity Management (Limited Partnership) ⁽³⁾⁽⁴⁾	PRC 22 January 2015	RMB 4,000,000	25.00%	25.00%	Equity investment	KPMG PRC	KPMG PRC
Beijing Huatai Ruihe Medical Industry Investment (Limited Partnership) ⁽³⁾⁽⁴⁾	PRC 1 June 2015	RMB 775,000,000	45.00%	45.00%	Equity investment	PRC GAAP	PRC GAAP
Yili Suxin Investment Fund (Limited Partnership) ⁽³⁾⁽⁴⁾	PRC 19 February 2016	RMB 1,330,000,000	24.73%	24.73%	Equity investment	KPMG PRC	KPMG PRC
AssetMark Financial Holdings, Inc. ⁽³⁾	US 1 January 1996	USD 1,000	100.00%	100.00%	Asset management	KPMG LLP	KPMG LLP
Huatai Ruilian Funds Mergers (Limited Partnership) ⁽²⁾⁽⁴⁾	PRC 17 March 2014	RMB —	—	32.00%	Equity investment	US GAAP	US GAAP
Beijing Ruilian Jingshen Investment (Limited Partnership) ⁽²⁾	PRC 22 August 2014	RMB 120,080,000	—	100.00%	Equity investment	KPMG PRC	KPMG PRC
Jiangsu Huatai Ruilian Funds Mergers (Limited Partnership) ⁽²⁾	PRC 5 August 2015	RMB 5,193,000,000	—	60.49%	Equity investment	PRC GAAP	PRC GAAP

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries (continued)

(a) Details of principal subsidiaries (continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held by the Company as at 31 December		Principal activity	Auditor ⁽¹⁾ GAAP	
			2017	2016		2017	2016
Shanghai Jingrui Investment Center (Limited Partnership) ⁽²⁾	PRC	RMB	—	—	Equity investment	KPMG PRC	KPMG PRC
Nanjing Huatai Ruilian NO.1 Funds Mergers (Limited Partnership) ⁽²⁾⁽⁴⁾	2 December 2014 PRC	100,100,000 RMB	—	100.00%	Equity investment	PRC GAAP	PRC GAAP
Nanjing Ruilian NO.1 Investment Center (Limited Partnership) ⁽²⁾	25 November 2015 PRC	5,442,000,000 RMB	—	48.94%	Equity investment	KPMG PRC	KPMG PRC
Nanjing Ruilian NO.3 Investment Center (Limited Partnership) ⁽²⁾	22 September 2015 PRC	1,731,830,000 RMB	—	62.47%	Equity investment	PRC GAAP	KPMG PRC
Nanjing Ruilian NO.3 Investment Center (Limited Partnership) ⁽²⁾	22 September 2015 PRC	701,000,000 RMB	—	71.47%	Equity investment	KPMG PRC	PRC GAAP

(1) Auditors of the respective subsidiaries of the Group are as follows:

- KPMG PRC represents KPMG Huazhen LLP, a firm of certified public accountants registered in PRC;
- KPMG represents KPMG in Hong Kong, a firm of certified public accountants registered in Hong Kong; and
- KPMG LLP represents KPMG in the United States, a firm of certified public accountants registered in the United States.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries (continued)

(a) Details of principal subsidiaries (continued)

- (2) Huatai Purple Gold Investment Co., Ltd. was previously known as Huatai Zijin Investment Co., Ltd.
- (3) These subsidiaries are indirectly controlled by the Company.
- (4) As at 31 December 2016, the Company indirectly holds less than 50.00% equity interest of Huatai Ruilin Equity Management (Limited Partnership), Shenzhen Huatai Ruilin NO.1 Equity Management (Limited Partnership), Beijing Huatai Ruihe Medical Industry Investment (Limited Partnership), Yili Suxin Investment Fund (Limited Partnership), Huatai Ruilian Funds Mergers (Limited Partnership) and Nanjing Huatai Ruilian NO.1 Funds Mergers (Limited Partnership).

As at 31 December 2017, the Company indirectly holds less than 50.00% equity interest of Huatai Ruilin Equity Management (Limited Partnership), Shenzhen Huatai Ruilin NO.1 Equity Management (Limited Partnership), Beijing Huatai Ruihe Medical Industry Investment (Limited Partnership) and Yili Suxin Investment Fund (Limited Partnership).

Pursuant to the partnership agreement, the Company has the power over these funds and it is able to use the power to influence the amount of variable returns to the Company. The directors of the Company consider the Company has the power to control these funds and they are therefore accounted for as subsidiaries of the Group.

(b) Partially-owned subsidiary with material non-controlling interests

The following table lists out the information relating to Huatai Futures Co., Ltd., the only subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination:

	2017	2016
NCI percentage	40%	40%
Assets	22,028,595	23,617,003
Liabilities	(19,562,577)	(21,970,840)
Net assets	2,466,018	1,646,163
Carrying amount of NCI	987,136	661,699
Revenue	1,058,604	1,024,429
Profit for the year	221,029	203,887
Other comprehensive income	(1,175)	1,680
Total comprehensive income	219,854	205,567
Profit allocated to NCI	85,685	79,832
Dividend paid to NCI	—	—
Cash flows from operating activities	(1,023,610)	3,400,114
Cash flows from investing activities	(376,404)	245,998
Cash flows from financing activities	(26,895)	177,290

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries (continued)

(c) Acquisition of subsidiaries

On 11 April 2016, the Group entered into a sale and purchase agreement with AqGen Liberty Holdings LLC, pursuant to which, AqGen Liberty Holdings LLC agreed to sell and the Group agreed to purchase the share capital of AssetMark Financial Holdings, Inc. The acquisition was completed on 31 October 2016, and the acquired interest was 98.952% with the consideration USD768,419 thousand (RMB5,197,664 thousand). The equity interest held by the Group decreased from 98.952% to 98.595% after the acquisition in December 2016. The Group recognised the excess of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill. The fair values of the identifiable assets and liabilities of AssetMark Financial Holding, Inc. as at the date of acquisition were as follows:

	Fair value recognised as at the date of acquisition
Property and equipment	40,451
Other intangible assets	4,959,100
Available-for-sale financial assets	203
Accounts receivable	60,474
Other current assets	259,870
Cash and bank balances	312,647
Employee benefits payable	(116,231)
Other payables and accruals	(697,793)
Current tax liabilities	(81,915)
Deferred tax liabilities	(1,473,149)
Total identifiable net assets at fair value	<u>3,263,657</u>
Goodwill arising from acquisition	
Consideration transferred	5,197,664
Add: Non-controlling interest	55,050
Less: Fair value of net assets acquired	<u>(3,263,657)</u>
Carrying amount of goodwill	<u>1,989,057</u>

Goodwill arose from the acquisition because the cost of the acquisition included a control premium. In addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies, revenue growth, and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Since the acquisition, AssetMark Financial Holdings, Inc. contributed RMB207,220 thousand to the Group's revenue and RMB19,708 thousand to the consolidated profit for the year ended 31 December 2016.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries (continued)

(d) Disposal of subsidiaries

Entity name	Consideration	Share of interest disposed	Date of losing control	Reasons of losing control	Difference between consideration received and the related share of net assets in consolidated financial statements	Proportion of remaining shareholding on the date of losing control	Carrying amount of remaining equity interests on the date of losing control	Fair value of remaining equity interests on the date of losing control	Gain or loss from remeasurement of remaining equity interests to fair value	Net cash outflow on disposal of subsidiaries	Other income and gains transferred from equity to previous equity investment in subsidiaries
Nanjing Huatai Onehealth NO.1 Equity Investment (Limited Partnership) ⁽ⁱ⁾	99,385	13.99%	February 2017	Losing power to control the fund due to divestment	44	19.55%	138,830	138,891	61	(608,694)	—
Huatai Ruilian Fund Management Co., Ltd ⁽ⁱⁱ⁾	—	—	July 2017	Decreasing voting power	—	42.33%	325,529	325,529	—	(232,030)	723,615

(i) In February 2017, the Group reduced 13.99% of equity investment in Nanjing Huatai Onehealth NO.1 Equity Investment (Limited Partnership). As a result, the Group lost control of Nanjing Huatai Onehealth NO.1 Equity Investment (Limited Partnership).

(ii) In July 2017, the Group lost control over Huatai Ruilian and its 3 subsidiaries as well as private equity funds within consolidation scope due to the Group's decreased voting power in the Board of Huatai Ruilian. Based on the composition and decision making mechanism of the Board of Directors of Huatai Ruilian, the Group considers that it has only retained the power to participate in the financial and operating policy decisions of the Huatai Ruilian, and was no longer exclusively possessing the power to govern policy decisions of Huatai Ruilian. Thus the Group changed the accounting treatment of equity investment in Huatai Ruilian from investment in subsidiaries to interest in associates using the equity method.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Interest in associates

	As at 31 December	
	2017	2016
Share of net assets	8,895,908	3,075,521

The following list contains only the particulars of material associates, all of which (except for Bank of Jiangsu Co., Ltd. (“Bank of Jiangsu”) has been listed on the Shanghai Stock Exchange) are unlisted corporate entities whose quoted market price is not available:

Name of associate	Registered place	Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Bank of Jiangsu ⁽ⁱ⁾	Nanjing	11,544,450	5.54%	5.54%	—	Commercial banking
China Southern Asset Management Co., Ltd.	Shenzhen	300,000	45%	45%	—	Fund management

All of the above associates are accounted for using the equity method in the consolidated financial statements.

- (i) The Group acquired shares in Bank of Jiangsu after obtaining the approval from the relevant authorities in 2006, and has appointed one non-executive director in the board of directors of Bank of Jiangsu. Pursuant to the approval document, the Group should not substantially participate in the operational management of Bank of Jiangsu. As such, the Group considered that it had no control, joint control or significant influence over Bank of Jiangsu. The equity investment was accounted for as an available-for-sale financial asset measured at fair value. In December 2017, the Group has received a notice from Jiangsu Provincial State-Owned Assets Supervision and Administration Commission (“the Notice”) requiring the Group to “fully exercise its shareholder’s rights, effectively exert its significant influence on the board of directors of Bank of Jiangsu and maintain stable shareholding in Bank of Jiangsu”. In order to implement the requirements of the Notice, on 28 December 2017, the Group, as resolved by its management meeting, decided to change the nature of its equity investment in Bank of Jiangsu from financial investment to strategic investment, formulated certain specific implementation measures that had a significant influence over Bank of Jiangsu and changed the accounting treatment of equity investment in Bank of Jiangsu from available-for-sale financial assets to interest in associates using the equity method.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Interest in associates (continued)

Summarised financial information of Bank of Jiangsu and China Southern Asset Management Co., Ltd. which are individually significant associates to the Group, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Bank of Jiangsu

	2017
Gross amounts of the associate	
Assets	1,770,551,000
Liabilities	(1,657,725,460)
Net assets	112,825,540
Revenue	33,839,000
Profit for the year	12,093,900
Other comprehensive income	(1,398,413)
Total comprehensive income	10,695,487
Dividend received from the associate ⁽ⁱ⁾	113,920
Reconciled to the Group's interest in the associate:	
Net assets of the associate attributable to the parent company	91,167,000
The Group's effective interest	5.54%
The Group's share of net assets of the associate	5,054,101
Carrying amount in the consolidated financial statements	5,054,101

- (i) The dividend was received by the Company in June 2017 which was distributed by Bank of Jiangsu before the date on which the Company changed the accounting treatment on equity investment in Bank of Jiangsu. Therefore, the dividend was not credited to interest in associates.

China Southern Asset Management Co., Ltd.

	2017	2016
Gross amounts of the associate		
Assets	8,072,936	6,374,667
Liabilities	(3,439,371)	(2,238,236)
Net assets	4,633,565	4,136,431
Revenue	3,424,320	3,002,467
Profit for the year	942,049	825,788
Other comprehensive income	1,058	(24,967)
Total comprehensive income	943,107	800,821
Dividend received from the associate	162,000	162,000
Reconciled to the Group's interest in the associate:		
Net assets of the associate attributable to the parent company	4,516,252	3,955,410
The Group's effective interest	45%	45%
The Group's share of net assets of the associate	2,032,314	1,779,934
Carrying amount in the consolidated financial statements	2,032,314	1,779,934

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

22 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2017	2016
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	1,809,493	1,295,587
Aggregate amounts of the Group's share of those associates' gains	126,882	96,195
Other comprehensive income	35,799	170,148
Total comprehensive income	162,681	266,343

23 Interest in joint venture

	As at 31 December	
	2017	2016
Share of net assets	—	301,756

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Registered place	Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Huatai Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	Nanjing	10,020,000	10%	—	10%	Equity investment

As at 31 December 2016, the Group holds 10% equity interest of Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership). Pursuant to the partnership agreement, the Group and the third party contractually agree to share control of the fund, and have rights to the net assets of the fund. The directors of the Group consider the fund is jointly controlled by the Group and the third party, and it is therefore accounted for as joint venture of the Group. As at 31 December 2017, the Group lost the rights to share control of the fund. Thus the Group changed the accounting treatment of equity investment in the fund from investment in joint venture using the equity method to available-to-sale financial assets.

24 Held-to-maturity investments

	As at 31 December	
	2017	2016
Listed outside Hong Kong:		
—Debt securities	—	5,000

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

25 Available-for-sale financial assets

Non-current

	As at 31 December	
	2017	2016
At fair value:		
—Equity securities	6,548,624	17,103,586
—Debt securities	11,883,339	143,655
—Funds	10,057	—
—Wealth management products	11,324,909	13,970,874
At cost:		
—Equity securities	5,716	5,716
Less: Impairment losses	(5,716)	(5,716)
Total	29,766,929	31,218,115
Analysed as:		
Listed outside Hong Kong	9,359,410	6,886,017
Unlisted	20,407,519	24,332,098
Total	29,766,929	31,218,115

Current

	As at 31 December	
	2017	2016
At fair value:		
—Equity securities	10,510,861	9,232,942
—Debt securities	3,223,006	836,775
—Funds	156,423	688,970
—Wealth management products	983,276	1,759,760
Less: Impairment losses	(57,327)	—
Total	14,816,239	12,518,447
Analysed as:		
Listed outside Hong Kong	12,153,725	10,627,289
Listed inside Hong Kong	8,621	34,521
Unlisted	2,653,893	1,856,637
Total	14,816,239	12,518,447

As at 31 December 2017 and 31 December 2016, the available-for-sale financial assets above contained the special account investment. The Company has entered into the agreement with China Securities Finance Corporation Limited (CSF), contributed to the special account established and managed by CSF for unified operation. Risk and income arising from the investment shall be shared by all securities firms according to the proportion of their respective contribution. As at 31 December 2017 and 31 December 2016, the fair value of the Company's contribution recognised by the Company was RMB11,096 million and RMB13,621 million based on the investment account statement provided by CSF.

As at 31 December 2017 and 31 December 2016, the fund investments with lock-up periods held by the Group are RMB124,338 thousand and RMB2,958 thousand respectively. The fair values of these funds have taken into account the relevant features including the restrictions.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

25 Available-for-sale financial assets (continued)

As at 31 December 2017 and 31 December 2016, the non-current listed equity securities held by the Group included investments in restricted shares of approximately RMB 475,631 thousand and RMB6,742,362 thousand, respectively. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

The equity interest in unlisted securities held by the Group are issued by private companies. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that for those of which the fair value cannot be measured reliably, the value of the securities is measured at cost less impairment at the reporting date. And for the fair value of the equity which can be measured reliably, the value of the securities is measured by applying valuation models.

Non-current available-for-sale investments are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods. The Group's investments in unlisted funds, which mainly invest in publicly traded equities listed in the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group's investments in equity securities without restriction, exchange-listed funds and debt securities are determined with reference to their quoted prices as at reporting date.

As at 31 December 2017, the Group has entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with total fair value of RMB5,592 thousand to external clients, and it did not result in derecognition of the financial assets. The fair value of collaterals for the securities lending business is analysed in Note 33(c) together with the fair value of collaterals of margin financing business. The Group has no such securities lending arrangement as at 31 December 2016.

As at 31 December 2017, the Group has pledged available-for-sale investment with a total fair value of RMB1,271,051 thousand to CSF for the purpose of replacement. The fair values of these securities have taken into account the relevant features including the restrictions. As at 31 December 2016, the Group did not pledge the available-for-sale investment to CSF.

As at 31 December 2017, the Group has pledged available-for-sale investment with a total fair value of RMB9,308,650 thousand for the purpose of repurchase agreement business. The fair values of these securities have taken into account the relevant features including the restrictions. As at 31 December 2016, the Group did not pledge the available-for-sale investment for repurchase agreement business.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

26 Financial assets held under resale agreements

(a) Analysed by collateral type:

Non-current

	As at 31 December	
	2017	2016
Equity securities	8,433,090	8,938,155
Less: Impairment losses	(8,786)	(7,759)
Total	<u>8,424,304</u>	<u>8,930,396</u>

Current

	As at 31 December	
	2017	2016
Equity securities	39,979,757	28,848,644
Debt securities	13,458,628	8,573,060
Others	86	2,953
Less: Impairment losses	(57,460)	(23,871)
Total	<u>53,381,011</u>	<u>37,400,786</u>

(b) Analysed by market:

Non-current

	As at 31 December	
	2017	2016
Shenzhen stock exchange	7,369,590	8,394,760
Shanghai stock exchange	1,063,500	543,395
Less: Impairment losses	(8,786)	(7,759)
Total	<u>8,424,304</u>	<u>8,930,396</u>

Current

	As at 31 December	
	2017	2016
Shenzhen stock exchange	36,403,031	24,982,056
Shanghai stock exchange	5,086,265	5,114,378
Inter-bank market	11,845,688	7,328,223
Others	103,487	—
Less: Impairment losses	(57,460)	(23,871)
Total	<u>53,381,011</u>	<u>37,400,786</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Financial assets held under resale agreements (continued)

(c) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2017	2016
At the beginning of the year	31,630	16,012
Charge for the year	42,909	17,682
Reversal of impairment	(8,293)	(2,064)
At the end of the year	66,246	31,630

27 Financial assets at fair value through profit or loss

Non-current

(a) Analysed by type:

	As at 31 December	
	2017	2016
Financial assets designated at fair value through profit or loss:		
—Wealth management products	1,796,667	1,294,444
Total	1,796,667	1,294,444

(b) Analysed as:

	As at 31 December	
	2017	2016
Financial assets designated at fair value through profit or loss:		
—Unlisted	1,796,667	1,294,444
Total	1,796,667	1,294,444

Current

(a) Analysed by type:

	As at 31 December	
	2017	2016
Held for trading:		
—Debt securities	55,045,651	50,293,491
—Funds	17,460,228	22,744,645
—Equity securities	7,644,385	4,565,506
—Wealth management products	2,603,491	4,209,145
Total	82,753,755	81,812,787

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***27 Financial assets at fair value through profit or loss (continued)****(b) Analysed as:**

	As at 31 December	
	2017	2016
Held for trading:		
—Listed outside Hong Kong	38,740,252	59,548,602
—Listed in Hong Kong	2,709,081	124,792
—Unlisted	41,304,422	22,139,393
Total	<u>82,753,755</u>	<u>81,812,787</u>

As at 31 December 2017 and 2016, the Group has pledged financial assets at fair value through profit or loss with a total fair value of RMB15,924,235 thousand and RMB15,882,313 thousand respectively for the purpose of repurchase agreement business and bond lending business.

28 Refundable deposits

	As at 31 December	
	2017	2016
Deposits with stock exchanges		
—China Securities Depository and Clearing Corporation Limited	501,501	452,046
—Hong Kong Securities Clearing Company Limited	12,897	8,213
	<u>514,398</u>	<u>460,259</u>
Deposits with futures and commodity exchanges		
—China Financial Futures Exchange	1,780,405	2,993,065
—Shanghai Futures Exchange	1,719,349	1,425,906
—Dalian Commodity Exchange	1,383,878	1,202,923
—Zhengzhou Commodity Exchange	1,001,240	710,754
—Overseas Commodity Exchange	30,052	90
	<u>5,914,924</u>	<u>6,332,738</u>
Deposits with other institutions		
—China Securities Finance Corporation Limited	771,339	1,249,255
—Shanghai Clearing House	101,324	116,070
—Shanghai Gold Exchange	300	300
—Other financial institutions	—	6
	<u>872,963</u>	<u>1,365,631</u>
Total	<u>7,302,285</u>	<u>8,158,628</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 Deferred taxation

(a) *The components of deferred tax assets / (liabilities) recognised in the consolidated statements of financial position and the movements during the year are as follows:*

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of derivative financial instruments	Changes in fair value of available-for-sale financial assets	Intangible assets recognised in the acquisition	Others	Total
As at 1 January 2017	111,222	1,302,235	(309,823)	179,051	(1,242,901)	(1,735,046)	(310,788)	(2,006,050)
Recognised in profit or loss	63,408	245,124	52,528	124,706	—	545,948	(1,334,498)	(302,784)
Recognised in reserves	—	—	—	—	850,841	—	(897)	849,944
As at 31 December 2017	174,630	1,547,359	(257,295)	303,757	(392,060)	(1,189,098)	(1,646,183)	(1,458,890)
As at 1 January 2016	121,050	891,803	(652,761)	576,473	(1,031,065)	—	(44,710)	(139,210)
Recognised in profit or loss	(9,828)	397,188	342,938	(397,422)	—	(65,743)	(402,032)	(134,899)
Acquisition of subsidiaries	—	13,244	—	—	—	(1,669,303)	182,910	(1,473,149)
Recognised in reserves	—	—	—	—	(211,836)	—	(46,956)	(258,792)
As at 31 December 2016	111,222	1,302,235	(309,823)	179,051	(1,242,901)	(1,735,046)	(310,788)	(2,006,050)

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***29 Deferred taxation (continued)****(b) Reconciliation to the statements of financial position**

	As at 31 December	
	2017	2016
Net deferred tax assets recognised in the statement of financial position	472,556	556,094
Net deferred tax liabilities recognised in the statement of financial position . . .	(1,931,446)	(2,562,144)
Total	<u>(1,458,890)</u>	<u>(2,006,050)</u>

(c) Deferred tax assets not recognised

As at 31 December 2017 and 31 December 2016, in accordance with the accounting policy set out in Note 2(18)(ii), the Group has not recognised unused tax losses of RMB1,323,946 thousand and RMB796,965 thousand respectively as deferred tax assets, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Most of the tax losses will not expire under current tax legislation.

30 Other non-current assets**(a) Analysed by nature:**

	As at 31 December	
	2017	2016
Leasehold improvements and long-term deferred expenses	<u>81,047</u>	<u>79,070</u>

(b) The movements of leasehold improvements and long-term deferred expenses are as below:

	As at 31 December	
	2017	2016
Balance at the beginning of the year	79,070	78,174
Additions	36,206	19,831
Transfer in from property and equipment (Note 17)	4,285	24,848
Amortisation	(38,514)	(43,783)
Balance at the end of the year	<u>81,047</u>	<u>79,070</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***31 Accounts receivable****(a) Analysed by nature:**

	As at 31 December	
	2017	2016
Accounts receivable of:		
—Fee and commission	524,805	473,989
—Settlement	428,818	55,678
—Redemption of open-ended fund	409,186	35,110
—Return swap	191,329	—
—Subscription receivable	142,612	122,857
—Brokers, dealers and clearing house	85,081	287,864
—Others	208,424	20,539
Less: Provision for impairment losses	(9,918)	(4,624)
Total	<u>1,980,337</u>	<u>991,413</u>

(b) Analysed by ageing:

As at the end of the reporting period, the ageing analysis of accounts receivable, based on the trade date, is as follows:

	As at 31 December	
	2017	2016
Within 1 month	1,498,523	875,284
1 to 3 months	372,601	63,395
Over 3 months	109,213	52,734
Total	<u>1,980,337</u>	<u>991,413</u>

(c) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2017	2016
At the beginning of the year	4,624	1,850
Charge for the year	10,561	2,774
Reversal of impairment	—	—
Amounts written-off	(5,267)	—
At the end of the year	<u>9,918</u>	<u>4,624</u>

(d) Accounts receivable that is not impaired

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Other receivables and prepayments

(a) Analysed by nature:

	As at 31 December	
	2017	2016
Interest receivable	5,630,981	4,154,103
Other receivables ⁽¹⁾	630,376	973,582
Deferred expenses	71,718	22,974
Others	341,033	259,059
Less: Impairment on other receivables and prepayments	(414,547)	(339,235)
Total	<u>6,259,561</u>	<u>5,070,483</u>

(1) The balance of others mainly represents the amount due from non-controlling shareholders of Huatai United Securities Co., Ltd., receivables from securities investor protection fund, and sundry receivables arising from normal course of business.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2017	2016
At the beginning of the year	339,235	396,297
Charge for the year	79,267	2,282
Reversal of impairment	(3,824)	(56,781)
Amounts written-off	(131)	(2,563)
At the end of the year	<u>414,547</u>	<u>339,235</u>

33 Margin accounts receivable

(a) Analysed by nature:

	As at 31 December	
	2017	2016
Individuals	57,810,197	53,792,895
Institutions	2,321,474	2,871,343
Less: Impairment losses	(140,217)	(59,134)
Total	<u>59,991,454</u>	<u>56,605,104</u>

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2017	2016
At the beginning of the year	59,134	59,780
Charge for the year	89,909	8,567
Reversal of impairment	(8,826)	(9,213)
At the end of the year	<u>140,217</u>	<u>59,134</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Margin accounts receivable (continued)

(c) *The fair value of collaterals for margin financing and securities lending business is analysed as the followings:*

	As at 31 December	
	2017	2016
Fair value of collaterals:		
—Equity securities	159,051,344	156,933,396
—Cash	7,461,800	12,944,433
—Funds	683,609	234,571
—Debt securities	65,559	13,045
Total	<u>167,262,312</u>	<u>170,125,445</u>

The Group evaluates the collectability of receivable from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin client.

34 Derivative financial instruments

	As at 31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	48,494,434	12,003	(6,373)
—Treasury futures	1,149,434	900	—
—Interest rate swap	47,345,000	11,103	(6,373)
Currency derivatives	457,394	—	(17,341)
—Currency swaps	457,394	—	(17,341)
Equity derivatives	49,428,114	392,326	(1,085,559)
—Stock index futures	266,835	3,607	(639)
—Equity return swaps	4,162,375	96,627	(828,925)
—Exchange-traded options	2,527,561	37,491	(29,510)
—Over-the-counter options	42,471,343	254,601	(226,485)
Credit derivatives	130,684	—	(1,854)
—Credit default swaps	130,684	—	(1,854)
Others	11,947,244	—	(531,163)
—Forward contracts	11,945,665	—	(531,129)
—Commodity futures	278	—	(7)
—Commodity options	1,301	—	(27)
Total	<u>110,457,870</u>	<u>404,329</u>	<u>(1,642,290)</u>
Less: settlement		(12,615)	7
Net position		<u>391,714</u>	<u>(1,642,283)</u>

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

34 Derivative financial instruments (continued)

	As at 31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	44,336,843	64,094	(31,865)
—Treasury futures	876,843	—	(10,754)
—Interest rate swap	43,460,000	64,094	(21,111)
Currency derivatives	3,468,500	4,834	(3,286)
—Currency swaps	3,468,500	4,834	(3,286)
Equity derivatives	45,106,918	93,536	(387,618)
—Stock index futures	23,742	43	—
—Equity return swaps	868,300	65,246	(370,969)
—Exchange-traded options	481,395	8,005	(6,240)
—Over-the-counter options	43,733,481	20,242	(10,409)
Credit derivatives	2,081,100	1,260	(896)
—Credit default swaps	2,081,100	1,260	(896)
Others	15,237,775	794	(451,100)
—Forward contracts	15,189,090	768	(451,100)
—Commodity futures	48,685	26	—
Total	<u>110,231,136</u>	<u>164,518</u>	<u>(874,765)</u>
Less: settlement		<u>(57,927)</u>	<u>10,754</u>
Net position		<u>106,591</u>	<u>(864,011)</u>

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settling with Shanghai Clearing House, stock index futures, treasury futures and certain commodity futures trading through Huatai Futures Co., Ltd., were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the Group has maintained no open position for these contracts at 31 December 2017 and 31 December 2016.

35 Clearing settlement funds

	As at 31 December	
	2017	2016
Deposits with stock exchanges		
—China Securities Depository and Clearing Corporation Limited	1,143,758	1,222,971
—Hong Kong Securities Clearing Company Limited	3,349	2,633
Deposits with other institutions	341	3,197
Total	<u>1,147,448</u>	<u>1,228,801</u>

36 Cash held on behalf of brokerage clients

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statements of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that they are liable for any loss or misappropriation of their brokerage clients' monies. In the PRC, cash held on behalf of brokerage clients for their transaction

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***36 Cash held on behalf of brokerage clients (continued)**

and settlement funds is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

37 Cash and bank balances

	As at 31 December	
	2017	2016
Cash on hand	194	381
Bank balances	27,025,936	45,229,651
Total	<u>27,026,130</u>	<u>45,230,032</u>

Bank balances comprise time and demand deposits which bear interest at the prevailing market rates.

38 Cash and cash equivalents**(a) Cash and cash equivalents comprise:**

	As at 31 December	
	2017	2016
Cash on hand	194	381
Bank balances	27,025,936	45,229,651
Clearing settlement funds	1,147,448	1,228,801
Financial assets held under resale agreements within 3 months	13,458,300	7,932,804
Less: restricted bank deposits	<u>(10,253,293)</u>	<u>(22,740,023)</u>
Total	<u>31,378,585</u>	<u>31,651,614</u>

The restricted bank deposits include bank deposits with original maturity of more than three months held by the Group, minimum liquid capital restriction deposits and risk reserve deposits.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

38 Cash and cash equivalents (continued)

(b) Reconciliation of liabilities arising from financing activities:

The following table details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Short-term debt instruments	Long-term bonds	Other debt instruments	Retained earnings	Non-controlling interests	Total
At 1 January 2017	1,621,000	75,847,816	460,255	16,194,936	1,302,740	95,426,747
Changes from financing cash flows						
Proceeds from issuance	42,258,270	31,000,000	—	—	—	73,258,270
Repayment of borrowings	(17,223,260)	(29,500,000)	(460,255)	—	—	(47,183,515)
Capital injection from non-controlling interests	—	—	—	—	265,233	265,233
Interest paid	(220,186)	(3,436,221)	(10,810)	—	—	(3,667,217)
Dividend paid	—	—	—	(3,581,384)	(1,620)	(3,583,004)
Total changes from financing cash flows	24,814,824	(1,936,221)	(471,065)	(3,581,384)	263,613	19,089,767
Other changes						
Interest expenses	521,294	3,407,715	10,801	—	—	3,939,810
Total liability-related other changes	521,294	3,407,715	10,801	—	—	3,939,810
Total equity-related other changes	—	—	—	6,363,663	(312,379)	6,051,284
At 31 December 2017	26,957,118	77,319,310	(9)	18,977,215	1,253,974	124,507,608

39 Short-term bank loans

	As at 31 December	
	2017	2016
Collateralised loans	—	460,255

As at 31 December 2016, the interest rates on the short-term loans were in the range of 4.35% to 5.44% respectively. The collateralised loans were pledged by the bank loan guarantee deposits or silver standard warehouse receipts. The Group has no such short-term loan arrangement as at 31 December 2017.

40 Short-term debt instruments issued

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
17 HUATAI 05 ⁽¹⁾	RMB4,000,000	11/08/2017	11/08/2018	RMB4,000,000	4.65%
17 HUATAI C3 ⁽²⁾	RMB2,000,000	14/09/2017	14/09/2018	RMB2,000,000	5.00%
17 HUATAI 07 ⁽³⁾	RMB4,000,000	20/11/2017	20/11/2018	RMB4,000,000	5.20%
Structured notes ⁽⁴⁾	RMB16,656,010	Note(4)	Note(4)	RMB16,656,010	Note(4)

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

40 Short-term debt instruments issued (continued)

Name	Book value as at 1 January 2017	Increase	Amount of amortisation	Decrease	Book value as at 31 December 2017
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
17 HUATAI 05 ⁽¹⁾	—	4,000,000	—	—	4,000,000
17 HUATAI C3 ⁽²⁾	—	2,000,000	—	—	2,000,000
17 HUATAI 07 ⁽³⁾	—	4,000,000	—	—	4,000,000
Structured notes ⁽⁴⁾	1,621,000	32,258,270	—	(17,223,260)	16,656,010
Total	1,621,000	42,258,270	—	(17,223,260)	26,656,010

As at 31 December 2016

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
Structured notes ⁽⁴⁾	RMB1,621,000	—	—	RMB1,621,000	—

Name	Book value as at 1 January 2016	Increase	Amount of amortisation	Decrease	Book value as at 31 December 2016
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
Structured notes ⁽⁴⁾	1,053,004	5,035,260	—	(4,467,264)	1,621,000

- (1) The Company has issued a 1-year corporate bond with a total nominal amount of RMB4 billion on 11 August 2017.
(2) The Company has issued a 1-year subordinated bond with a total nominal amount of RMB2 billion on 14 September 2017.
(3) The Company has issued a 1-year corporate bond with a total nominal amount of RMB4 billion on 20 November 2017.
(4) In 2017, the Company has issued 284 tranches of structured notes, bearing interest ranging from 4.34% to 6.81% per annum, repayable within 1 year. In 2016, the Company has issued 58 tranches of structured notes, bearing interest ranging from 2.00% to 8.00% per annum, repayable within 1 year. Structured notes repayable more than 1 year are classified as “Long-term bonds” (Note 48).

41 Placements from other financial institutions

	As at 31 December	
	2017	2016
Placements from China Securities Finance Co., Ltd. ⁽¹⁾	6,500,000	6,650,000
Interbank lendings ⁽²⁾	529,998	—
Total	7,029,998	6,650,000

- (1) As at 31 December 2017 and 2016, the placements from China Securities Finance Co., Ltd. are secured and bear interest at 5.10% and 3.00 % per annum respectively, with maturities within 150 days and 52 days respectively.
(2) As at 31 December 2017, the interbank lendings are unsecured, bearing interest of 5.00%-7.30% per annum, with maturities within 263 days.

42 Accounts payable to brokerage clients

	As at 31 December	
	2017	2016
Clients’ deposits for brokerage trading	59,717,526	82,617,056
Clients’ deposits for margin financing and securities lending	7,618,019	10,111,781
Total	67,335,545	92,728,837

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***42 Accounts payable to brokerage clients (continued)**

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. Accounts payable to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

43 Employee benefits payable

Non-current

	As at 31 December 2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	4,984,706	1,961,415	(895,937)	6,050,184
Cash-settled share-based payments	3,646	24,812	—	28,458
Total	<u>4,988,352</u>	<u>1,986,227</u>	<u>(895,937)</u>	<u>6,078,642</u>

	As at 31 December 2016			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	3,366,621	2,254,291	(636,206)	4,984,706
Cash-settled share-based payments	—	3,646	—	3,646
Total	<u>3,366,621</u>	<u>2,257,937</u>	<u>(636,206)</u>	<u>4,988,352</u>

Current

	As at 31 December 2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	2,477,157	4,165,506	(4,001,545)	2,641,118
Contribution to pension scheme	190	314,071	(313,061)	1,200
Other social welfare	39,743	564,392	(577,676)	26,459
Total	<u>2,517,090</u>	<u>5,043,969</u>	<u>(4,892,282)</u>	<u>2,668,777</u>

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

43 Employee benefits payable (continued)

	As at 31 December 2016				
	As at 1 January	Additions through business combinations	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	2,788,192	104,859	2,811,982	(3,227,876)	2,477,157
Contribution to pension scheme	138	—	188,973	(188,921)	190
Other social welfare	19,457	11,372	410,512	(401,598)	39,743
Total	<u>2,807,787</u>	<u>116,231</u>	<u>3,411,467</u>	<u>(3,818,395)</u>	<u>2,517,090</u>

(a) Share-based payment of a subsidiary

(i) Summary information about share-based payments of a subsidiary

	2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Cash-settled share-based payments —USD equivalent to RMB	<u>3,646</u>	<u>24,812</u>	<u>—</u>	<u>28,458</u>
	2016			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Cash-settled share-based payments —USD equivalent to RMB	<u>—</u>	<u>3,646</u>	<u>—</u>	<u>3,646</u>

(ii) Cash-settled share-based payments

AssetMark Holdings, LLC, a subsidiary of the Group, granted a share-based compensation to all officers of its subsidiary, AssetMark Financial Holdings, Inc, at 1 November 2016. The share-based compensation is calculated based on the fair value of Class C common units of AssetMark Holdings, LLC. The vesting conditions consist of service time and performance conditions. The options will vest in 3 years after the grant date and are exercisable with a period of 4 to 8 years.

Incentive unit activity during the year ended 31 December 2017 and 31 December 2016 is as follows:

	Share quantities	Weighted average remaining contractual years
Balance at 1 January 2017	8,075.04	7.80
—Granted	623.35	7.37
—Forfeited	(148.26)	6.83
Balance at 31 December 2017	<u>8,550.13</u>	6.87
	Share quantities	Weighted average remaining contractual years
Balance at 1 January 2016	—	—
—Granted	8,092.04	7.80
—Forfeited	(17.00)	7.80
Balance at 31 December 2016	<u>8,075.04</u>	7.80

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Employee benefits payable (continued)

(a) Share-based payment of a subsidiary (continued)

(ii) Cash-settled share-based payments (continued)

As at 31 December 2017 and 31 December 2016, the accumulated amount of liabilities arising from cash-settled share-based payments were USD4,355 thousand and USD526 thousand, equivalent to RMB28,458 thousand and RMB3,646 thousand respectively, and total expenses recognised for the year arising from cash-settled share-based payments amounted to RMB24,812 thousand and RMB3,646 thousand respectively.

Share-based payments for services are calculated at fair value. The method for determining the fair value of liabilities based on the shares or other equity instruments assumed by the Group is Monte Carlo simulation.

44 Other payables and accruals

	As at 31 December	
	2017	2016
Payables to interest holders of consolidated structured entities ⁽¹⁾	51,519,774	68,380,572
Trade payable	3,002,452	711,543
Interest payable	2,382,951	2,155,236
Payable to open-ended funds	1,332,196	5,169,259
Redemption payables	1,022,606	—
Settlement payables	750,436	632,679
Payable for office building construction	663,683	799,554
Other tax payable	544,039	385,413
Dividend to be converted to the investment capital of consolidated structured entities	214,259	156,862
Fee and commission payable	206,920	217,276
Futures risk reserve	98,750	107,404
Payable to the securities investor protection fund	92,159	131,333
Payable to brokerage agents	38,961	52,964
Others ⁽²⁾	746,049	771,600
Total	<u>62,615,235</u>	<u>79,671,695</u>

(1) The financial liabilities arising from the consolidated structured entities with underlying investments in money market and fixed income instruments are classified as other payables and accruals in these consolidated financial statements. It is because, the Group has an obligation to pay other investors upon maturity dates of the structured entities based on the net book value and related terms of those consolidated asset management schemes.

(2) The balance of others mainly represents payable to the joint bonds underwriters, and sundry payables arising from normal course of business.

45 Financial assets sold under repurchase agreements

(a) Analysed by collateral type:

Non-current

	As at 31 December	
	2017	2016
Margin loans receivable backed repurchase	<u>1,000,000</u>	<u>—</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***45 Financial assets sold under repurchase agreements (continued)****(a) Analysed by collateral type (continued):**

Current

	As at 31 December	
	2017	2016
Debt securities	22,421,537	12,411,375
Margin loans receivable backed repurchase	1,500,000	5,800,000
Securities-backed lending repurchase	—	1,252,000
Total	<u>23,921,537</u>	<u>19,463,375</u>

(b) Analysed by market:

Non-current

	As at 31 December	
	2017	2016
Over-the-counter	<u>1,000,000</u>	<u>—</u>

Current

	As at 31 December	
	2017	2016
Inter-bank market	6,101,557	8,235,490
Shanghai stock exchange	14,526,100	4,055,200
Shenzhen stock exchange	735,076	70,000
Over-the-counter	2,558,804	7,102,685
Total	<u>23,921,537</u>	<u>19,463,375</u>

46 Financial liabilities at fair value through profit or loss

Non-current

	As at 31 December	
	2017	2016
Financial liabilities designated at fair value through profit or loss	<u>2,345,668</u>	<u>25,163,711</u>

Current

	As at 31 December	
	2017	2016
Financial liabilities held for trading	11,907,337	2,604,066
Financial liabilities designated at fair value through profit or loss	128,323	152,201
Total	<u>12,035,660</u>	<u>2,756,267</u>

In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities and private funds with the underlying investments related to listed equity

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

46 Financial liabilities at fair value through profit or loss (continued)

investments in active markets and unlisted equities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors or limited partners upon maturity dates of the structured entities based on net book value and related terms of those consolidated asset management schemes or private equity funds.

47 Long-term bonds due within one year

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01 ⁽¹⁾	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
15 HUATAI 01 ⁽²⁾	RMB6,000,000	22/01/2015	23/01/2017	RMB6,000,000	5.90%
15 HUATAI 03 ⁽³⁾	RMB5,000,000	20/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI 04 ⁽⁴⁾	RMB18,000,000	25/06/2015	26/06/2017	RMB18,000,000	5.50%
15 HUATAI G1 ⁽⁵⁾	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
17 HUATAI 01 ⁽⁶⁾	RMB6,000,000	24/02/2017	24/08/2018	RMB6,000,000	4.50%
Structured notes ⁽⁷⁾	RMB1,900,000	Note (7)	Note (7)	RMB1,900,000	2.40%-5.00%

Name	Book value as at 1 January 2017	Increase	Amount of amortisation	Decrease	Book value as at 31 December 2017
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01 ⁽¹⁾	—	3,997,332	1,894	—	3,999,226
15 HUATAI 01 ⁽²⁾	6,000,000	—	—	(6,000,000)	—
15 HUATAI 03 ⁽³⁾	—	5,000,000	—	—	5,000,000
15 HUATAI 04 ⁽⁴⁾	18,000,000	—	—	(18,000,000)	—
15 HUATAI G1 ⁽⁵⁾	—	6,594,798	3,456	—	6,598,254
17 HUATAI 01 ⁽⁶⁾	—	6,000,000	—	—	6,000,000
Structured notes ⁽⁷⁾	1,900,000	—	—	(1,900,000)	—
Total	25,900,000	21,592,130	5,350	(25,900,000)	21,597,480

As at 31 December 2016

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
14 HUATAI 02 ⁽⁸⁾	RMB3,000,000	18/04/2014	21/04/2016	RMB3,000,000	6.15%
14 HUATAI 04 ⁽⁹⁾	RMB4,000,000	26/09/2014	29/09/2018	RMB4,000,000	5.90%
15 HUATAI 01 ⁽²⁾	RMB6,000,000	22/01/2015	23/01/2017	RMB6,000,000	5.90%
15 HUATAI 02 ⁽¹⁰⁾	RMB7,000,000	20/04/2015	21/04/2017	RMB7,000,000	5.60%
15 HUATAI 04 ⁽⁴⁾	RMB18,000,000	25/06/2015	26/06/2017	RMB18,000,000	5.50%
15 HUATAIQI ⁽¹¹⁾	RMB600,000	22/07/2015	22/07/2019	RMB600,000	5.80%
Structured notes ⁽⁷⁾	RMB3,580,000	—	—	RMB3,580,000	2.40%-5.00%

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

47 Long-term bonds due within one year (continued)

Name	Book value as at 1 January 2016	Increase	Amount of amortisation	Decrease	Book value as at 31 December 2016
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
14 HUATAI 02 ⁽⁸⁾	2,998,178	—	1,822	(3,000,000)	—
14 HUATAI 04 ⁽⁹⁾	—	4,000,000	—	(4,000,000)	—
15 HUATAI 01 ⁽²⁾	—	6,000,000	—	—	6,000,000
15 HUATAI 02 ⁽¹⁰⁾	—	7,000,000	—	(7,000,000)	—
15 HUATAI 04 ⁽⁴⁾	—	18,000,000	—	—	18,000,000
15 HUATAIQI ⁽¹¹⁾	—	615,445	17,352	(632,797)	—
Structured notes ⁽⁷⁾	—	3,580,000	—	(1,680,000)	1,900,000
Total	<u>2,998,178</u>	<u>39,195,445</u>	<u>19,174</u>	<u>(16,312,797)</u>	<u>25,900,000</u>

(1) The Company has issued a 5-year corporate bond with a total nominal amount of RMB4 billion on 5 June 2013.

(2) The Company has issued 2-year subordinated bond with a total nominal amount of RMB6 billion on 22 January 2015. The Company fully redeemed the bond on 23 January 2017.

(3) The Company has issued 5-year subordinated bond with a total nominal amount of RMB5 billion on 20 April 2015, which will be fully redeemed in 2018.

(4) The Company has issued 2-year subordinated bond with a total nominal amount of RMB18 billion on 25 June 2015. The Company fully redeemed the bond on 26 June 2017.

(5) The Company has issued a 3-year corporate bond with a total nominal amount of RMB6.6 billion on 29 June 2015.

(6) The Company has issued a 1.5-year corporate bond with a total nominal amount of RMB6 billion on 24 February 2017.

(7) As at 31 December 2017, no structured notes would mature within one year. In 2017, the Company paid the outstanding balance of structured notes due within one year as at the end of 2016. As at 31 December 2016, 4 tranches of structured notes with a nominal amount of RMB3.58 billion would mature within one year, bearing interest ranging from 2.40% to 5.00% per annum.

(8) The Company has issued a 2-year subordinated bond with a nominal amount of RMB3 billion on 18 April 2014. The Company redeemed the bond fully on 21 April 2016.

(9) The Company has issued a 4-year subordinated bond with a nominal amount of RMB4 billion on 26 September 2014. The Company has the option to redeem the 4-year subordinated bond at the end of the second year since its issuance. The Company redeemed the bond fully on 29 September 2016.

(10) The Company has issued a 2-year subordinated bond with a nominal amount of RMB7 billion on 20 April 2015. The Company has the option to redeem the 2-year subordinated bond at the end of the first year since its issuance. The Company redeemed the 2-year subordinated bond fully on 21 April 2016.

(11) Huatai Futures Co., Ltd. has issued a 4-year subordinated bond with a nominal amount of RMB0.6 billion on 22 July 2015. Huatai Futures Co., Ltd. has the option to redeem the 4-year subordinated bond at the end of the first year since its issuance. Huatai Futures Co., Ltd. redeemed the 4-year subordinated bond fully on 22 July 2016.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Long-term bonds

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01 ⁽¹⁾	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
13 HUATAI 02 ⁽¹⁾	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
HUATAI B1910 ⁽²⁾	US\$400,000	08/10/2014	08/10/2019	US\$399,665	3.625%
15 HUATAI 03 ⁽³⁾	RMB5,000,000	20/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI G1 ⁽⁴⁾	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
16 HUATAIQI ⁽⁵⁾	RMB600,000	18/07/2016	18/07/2020	RMB600,000	3.94%
16 HUATAI C1 ⁽⁶⁾	RMB5,000,000	14/10/2016	14/10/2021	RMB5,000,000	3.30%
16 HUATAI C2 ⁽⁶⁾	RMB3,000,000	21/10/2016	21/10/2019	RMB3,000,000	3.12%
16 HUATAI G1 ⁽⁷⁾	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G2 ⁽⁷⁾	RMB2,500,000	06/12/2016	06/12/2021	RMB2,500,000	3.78%
16 HUATAI G3 ⁽⁸⁾	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
16 HUATAI G4 ⁽⁸⁾	RMB3,000,000	14/12/2016	14/12/2021	RMB3,000,000	3.97%
17 HUATAI 01 ⁽⁹⁾	RMB6,000,000	24/02/2017	24/08/2018	RMB6,000,000	4.50%
17 HUATAI 02 ⁽⁹⁾	RMB2,000,000	24/02/2017	24/02/2020	RMB2,000,000	4.65%
17 HUATAI 03 ⁽¹⁰⁾	RMB4,000,000	15/05/2017	15/05/2019	RMB4,000,000	5.00%
17 HUATAI 04 ⁽¹⁰⁾	RMB6,000,000	15/05/2017	15/05/2020	RMB6,000,000	5.25%
17 HUATAI C2 ⁽¹¹⁾	RMB5,000,000	27/07/2017	27/07/2020	RMB5,000,000	4.95%
17 HUATAI 06 ⁽¹²⁾	RMB5,000,000	19/10/2017	19/04/2019	RMB5,000,000	4.98%
Structured notes ⁽¹³⁾	RMB3,000,000	26/12/2017	26/02/2019	RMB3,000,000	5.15%

Name	Book value as at 1 January 2017	Increase	Amount of amortisation	Decrease	Foreign exchange impact	Book value as at 31 December 2017
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01 ⁽¹⁾	3,997,332	—	—	(3,997,332)	—	—
13 HUATAI 02 ⁽¹⁾	5,991,065	—	1,254	—	—	5,992,319
HUATAI B1910 ⁽²⁾	2,764,621	—	3,785	—	(159,929)	2,608,477
15 HUATAI 03 ⁽³⁾	5,000,000	—	—	(5,000,000)	—	—
15 HUATAI G1 ⁽⁴⁾	6,594,798	—	—	(6,594,798)	—	—
16 HUATAIQI ⁽⁵⁾	600,000	—	—	(600,000)	—	—
16 HUATAI C1 ⁽⁶⁾	5,000,000	—	—	—	—	5,000,000
16 HUATAI C2 ⁽⁶⁾	3,000,000	—	—	—	—	3,000,000
16 HUATAI G1 ⁽⁷⁾	3,500,000	—	—	—	—	3,500,000
16 HUATAI G2 ⁽⁷⁾	2,500,000	—	—	—	—	2,500,000
16 HUATAI G3 ⁽⁸⁾	5,000,000	—	—	—	—	5,000,000
16 HUATAI G4 ⁽⁸⁾	3,000,000	—	—	—	—	3,000,000
17 HUATAI 01 ⁽⁹⁾	—	6,000,000	—	(6,000,000)	—	—
17 HUATAI 02 ⁽⁹⁾	—	2,000,000	—	—	—	2,000,000
17 HUATAI 03 ⁽¹⁰⁾	—	4,000,000	—	—	—	4,000,000
17 HUATAI 04 ⁽¹⁰⁾	—	6,000,000	—	—	—	6,000,000
17 HUATAI C2 ⁽¹¹⁾	—	5,000,000	—	—	—	5,000,000
17 HUATAI 06 ⁽¹²⁾	—	5,000,000	—	—	—	5,000,000
Structured notes ⁽¹³⁾	3,000,000	3,000,000	—	(3,000,000)	—	3,000,000
Total	49,947,816	31,000,000	5,039	(25,192,130)	(159,929)	55,600,796

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Long-term bonds (continued)

As at 31 December 2016

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01 ⁽¹⁾	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
13 HUATAI 02 ⁽¹⁾	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
14 HUATAI 04 ⁽¹⁴⁾	RMB4,000,000	26/09/2014	29/09/2018	RMB4,000,000	5.90%
HUATAI B1910 ⁽²⁾	US\$400,000	08/10/2014	08/10/2019	US\$399,665	3.625%
15 HUATAI 01 ⁽¹⁵⁾	RMB6,000,000	22/01/2015	23/01/2017	RMB6,000,000	5.90%
15 HUATAI 02 ⁽¹⁶⁾	RMB7,000,000	20/04/2015	21/04/2017	RMB7,000,000	5.60%
15 HUATAI 03 ⁽³⁾	RMB5,000,000	20/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI 04 ⁽¹⁷⁾	RMB18,000,000	25/06/2015	26/06/2017	RMB18,000,000	5.50%
15 HUATAI G1 ⁽⁴⁾	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
15 HUATAIQI ⁽¹⁸⁾	RMB600,000	22/07/2015	22/07/2019	RMB600,000	5.80%
16 HUATAIQI ⁽⁵⁾	RMB600,000	18/07/2016	18/07/2020	RMB600,000	3.94%
16 HUATAI C1 ⁽⁶⁾	RMB5,000,000	14/10/2016	14/10/2021	RMB5,000,000	3.30%
16 HUATAI C2 ⁽⁶⁾	RMB3,000,000	21/10/2016	21/10/2019	RMB3,000,000	3.12%
16 HUATAI G1 ⁽⁷⁾	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G2 ⁽⁷⁾	RMB2,500,000	06/12/2016	06/12/2021	RMB2,500,000	3.78%
16 HUATAI G3 ⁽⁸⁾	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
16 HUATAI G4 ⁽⁸⁾	RMB3,000,000	14/12/2016	14/12/2021	RMB3,000,000	3.97%
Structured notes ⁽¹³⁾	RMB6,580,000	—	—	RMB6,580,000	2.80%-5.00%

Name	Book value as at 1 January 2016	Increase	Amount of amortisation	Decrease	Foreign exchange impact	Book value as at 31 December 2016
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01 ⁽¹⁾	3,995,676	—	1,656	—	—	3,997,332
13 HUATAI 02 ⁽¹⁾	5,989,982	—	1,083	—	—	5,991,065
14 HUATAI 04 ⁽¹⁴⁾	4,000,000	—	—	(4,000,000)	—	—
HUATAI B1910 ⁽²⁾	2,581,298	—	3,499	—	179,824	2,764,621
15 HUATAI 01 ⁽¹⁵⁾	6,000,000	—	—	(6,000,000)	—	—
15 HUATAI 02 ⁽¹⁶⁾	7,000,000	—	—	(7,000,000)	—	—
15 HUATAI 03 ⁽³⁾	5,000,000	—	—	—	—	5,000,000
15 HUATAI 04 ⁽¹⁷⁾	18,000,000	—	—	(18,000,000)	—	—
15 HUATAI G1 ⁽⁴⁾	6,591,599	—	3,199	—	—	6,594,798
15 HUATAIQI ⁽¹⁸⁾	615,445	—	17,352	(632,797)	—	—
16 HUATAIQI ⁽⁵⁾	—	600,000	—	—	—	600,000
16 HUATAI C1 ⁽⁶⁾	—	5,000,000	—	—	—	5,000,000
16 HUATAI C2 ⁽⁶⁾	—	3,000,000	—	—	—	3,000,000
16 HUATAI G1 ⁽⁷⁾	—	3,500,000	—	—	—	3,500,000
16 HUATAI G2 ⁽⁷⁾	—	2,500,000	—	—	—	2,500,000
16 HUATAI G3 ⁽⁸⁾	—	5,000,000	—	—	—	5,000,000
16 HUATAI G4 ⁽⁸⁾	—	3,000,000	—	—	—	3,000,000
Structured notes ⁽¹³⁾	9,600,000	6,580,000	—	(13,180,000)	—	3,000,000
Total	69,374,000	29,180,000	26,789	(48,812,797)	179,824	49,947,816

(1) The Company has issued a 5-year corporate bond with a total nominal amount of RMB4 billion and a 10-year corporate bond with a total nominal amount of RMB6 billion on 5 June 2013. These two tranches of corporate bonds were listed in the Shanghai Stock Exchange on 17 July 2013. As at 31 December 2017, the corporate bond with a total nominal amount of RMB4 billion is due within one year and is therefore classified as “Long-term bonds due within one year” (Note 47).

(2) Huatai International Finance I Limited, the Company’s Hong Kong subsidiary, has issued a 5-year bond with a total nominal amount of USD0.4 billion on 8 October 2014. The bond was guaranteed by the Bank of China Limited. The Company has provided counter-guarantee to the Bank of China Limited.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Long-term bonds (continued)

- (3) The Company has issued a 5-year subordinated bond with a total nominal amount of RMB5 billion on 20 April 2015. The Company has the option to redeem the 5-year subordinated bond at the end of the third year since its issuance. During the current period, the Company decided to exercise the redemption option and will fully redeem the subordinated bonds in 2018. As at 31 December 2017, the subordinated bond is due within one year and is therefore classified as “Long-term bonds due within one year” (Note 47).
- (4) The Company has issued a 3-year corporate bond with a total nominal amount of RMB6.6 billion on 29 June 2015. As at 31 December 2017, the subordinated bond is due within one year and is therefore classified as “Long-term bonds due within one year” (Note 47).
- (5) Huatai Futures Co., Ltd. has issued a 4-year subordinated bond with a total nominal amount of RMB0.6 billion on 18 July 2016. Huatai Futures Co., Ltd. has the option to redeem the 4-year subordinated bond at the end of the first year since its issuance. The Company redeemed the bond in advance on 18 July 2017.
- (6) The Company has issued a 5-year subordinated bond with a total nominal amount of RMB5 billion on 14 October 2016 and a 3-year subordinated bond with a total nominal amount of RMB3 billion on 21 October 2016. The Company has the option to redeem the 5-year subordinated bond at the end of the third year since its issuance and redeem the 3-year subordinated bond at the end of the second year since its issuance.
- (7) The Company has issued a 3-year corporate bond with a total nominal amount of RMB3.5 billion and a 5-year corporate bond with a total nominal amount of RMB2.5 billion on 6 December 2016.
- (8) The Company has issued a 3-year corporate bond with a total nominal amount of RMB5 billion and a 5-year corporate bond with a total nominal amount of RMB3 billion on 14 December 2016.
- (9) The Company has issued a 1.5-year corporate bond with a total nominal amount of RMB6 billion and a 3-year corporate bond with a total nominal amount of RMB2 billion on 24 February 2017. As at 31 December 2017, the corporate bond with a total nominal amount of RMB6 billion is due within one year and is therefore classified as “Long-term bonds due within one year” (Note 47).
- (10) The Company has issued a 2-year corporate bond with a total nominal amount of RMB4 billion and a 3-year corporate bond with a total nominal amount of RMB6 billion on 15 May 2017.
- (11) The Company has issued a 3-year subordinated bond with a total nominal amount of RMB5 billion on 27 July 2017.
- (12) The Company has issued a 1.5-year corporate bond with a total nominal amount of RMB5 billion on 19 October 2017.
- (13) In 2017, the Company has issued 1 tranche of long-term structured notes with a total nominal amount of RMB3 billion. In 2016, the Company has issued 7 tranches of structured notes with a nominal amount of RMB6.58 billion. As at 31 December 2016, 4 tranches of structured notes with a nominal amount of RMB3.58 billion is due within one year and is therefore classified as “Long-term bonds due within one year” (Note 47).
- (14) The Company has issued a 3-year subordinated bond with a nominal amount of RMB2 billion and a 4-year subordinated bond with a nominal amount of RMB4 billion on 26 September 2014. The Company has the option to redeem the 3-year subordinated bond at the end of the first year since its issuance and redeem the 4-year subordinated bond at the end of the second year since its issuance. The Company redeemed the 3-year subordinated bond fully on 29 September 2015 and redeem the 4-year subordinated bond fully on 29 September 2016.
- (15) The Company has issued a 2-year subordinated bond with a nominal amount of RMB6 billion on 22 January 2015. As at 31 December 2016, the subordinated bond is due within one year and is therefore classified as “Long-term bonds due within one year” (Note 47).
- (16) The Company has issued a 2-year subordinated bond with a nominal amount of RMB7 billion and a 5-year subordinated bond with a nominal amount of RMB5 billion on 20 April 2015. The Company has the option to redeem the 2-year subordinated bond at the end of the first year since its issuance and redeem the 5-year subordinated bond at the end of the third year since its issuance. The Company redeemed the 2-year subordinated bond fully on 21 April 2016, which was disclosed in Note 47.
- (17) The Company has issued a 2-year subordinated bond with a nominal amount of RMB18 billion on 25 June 2015. As at 31 December 2016, the subordinated bond is due within one year and is therefore classified as “Long-term bonds due within one year” (Note 47).
- (18) Huatai Futures Co., Ltd. has issued a 4-year subordinated bond with a nominal amount of RMB0.6 billion on 22 July 2015. Huatai Futures Co., Ltd. has the option to redeem the 4-year subordinated bond at the end of the first year since its issuance. Huatai Futures Co., Ltd. redeemed the 4-year subordinated bond fully on 22 July 2016, which was disclosed in Note 47.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Share capital, reserves and retained profits

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Reserves					Retained profits	Total
			Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve		
As at 1 January 2017		7,162,769	45,577,448	3,071,195	6,354,298	3,162,823	18,981	10,594,696	75,942,210
Changes in equity for 2017									
Profit for the year		—	—	—	—	—	—	8,482,927	8,482,927
Other comprehensive income		—	—	—	—	(2,160,952)	—	—	(2,160,952)
Total comprehensive income		—	—	—	—	(2,160,952)	—	8,482,927	6,321,975
Appropriation to surplus reserve		—	—	848,293	—	—	—	(848,293)	—
Appropriation to general reserve		—	—	—	1,696,585	—	—	(1,696,585)	—
Dividends declared for the year		—	—	—	—	—	—	(3,581,384)	(3,581,384)
As at 31 December 2017	57	7,162,769	45,577,448	3,919,488	8,050,883	1,001,871	18,981	12,951,361	78,682,801

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Share capital, reserves and retained profits (continued)

(a) Movements in components of equity (continued)

	Note	Share capital	Reserves					Retained profits	Total
			Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve		
As at 1 January 2016		7,162,769	45,577,448	2,607,376	5,426,661	2,725,705	16,009	10,929,349	74,445,317
Changes in equity for 2016									
Profit for the year		—	—	—	—	—	—	4,638,187	4,638,187
Other comprehensive income		—	—	—	—	437,118	2,972	—	440,090
Total comprehensive income		—	—	—	—	437,118	2,972	4,638,187	5,078,277
Appropriation to surplus reserve		—	—	463,819	—	—	—	(463,819)	—
Appropriation to general reserve		—	—	—	927,637	—	—	(927,637)	—
Dividends declared for the year		—	—	—	—	—	—	(3,581,384)	(3,581,384)
As at 31 December 2016	57	7,162,769	45,577,448	3,071,195	6,354,298	3,162,823	18,981	10,594,696	75,942,210

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Share capital, reserves and retained profits (continued)

(b) Share capital

All shares issued by the Company are fully paid common shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	As at 31 December 2017		As at 31 December 2016	
	Number of shares	Nominal value	Number of shares	Nominal value
	(Thousand)		(Thousand)	
Registered, issued and fully paid:				
A shares of RMB1 each	5,443,723	5,443,723	5,443,723	5,443,723
H shares of RMB1 each	1,719,046	1,719,046	1,719,046	1,719,046
Total	<u>7,162,769</u>	<u>7,162,769</u>	<u>7,162,769</u>	<u>7,162,769</u>

On 1 June 2015, the Company completed its initial public offering of 1,400,000,000 H shares on the Main Board of the Hong Kong Stock Exchange. On 19 June 2015, the Company partially exercised the over-allotment option and issued 162,768,800 H shares.

According to the relevant requirements of PRC regulators, existing shareholder of the state-owned shares of the Company have transferred an aggregate number of 156,276,880 state-owned shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H shares on a one-for-one basis.

The H shares rank pari passu in all respects with the existing A shares including the right to receive all dividends and distributions declared or made.

(c) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of face value and the difference between the considerations of acquisition of equity interests from non-controlling shareholders and the carrying amount of the proportionate net assets.

The Company was listed on the Main Board of the Hong Kong Stock Exchange on 1 June 2015. The excess of the proceeds over the nominal value of the total number of ordinary shares issued which amounted to RMB28,590,928 thousand was credited to the capital reserve, net of offering expenses (of which the inter-group transactions were eliminated on consolidation) of RMB441,058 thousand.

(d) Surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

49 Share capital, reserves and retained profits (continued)

(e) General reserve

General reserve includes general risk reserve and 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, 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 securities trading losses, the Company appropriates 10% from its annual net profit to the transaction risk reserve.

The Company's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

(f) Fair value reserve

The fair value reserve comprises the cumulative net changes in fair values of available-for-sale financial assets until the assets are derecognised or impaired.

(g) Translation reserve

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

50 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2017 and 31 December 2016 not provided for in the financial statements were as follows:

	As at 31 December	
	2017	2016
Contracted, but not provided for	791,124	73,041

The above-mentioned capital commitments mainly represent the construction of properties and securities underwriting commitments of the Group.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***50 Commitments (continued)****(b) Operating lease commitments**

As at 31 December 2017 and 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2017	2016
Within 1 year (inclusive)	252,026	223,519
1-2 years (inclusive)	224,201	154,874
2-3 years (inclusive)	161,373	131,189
After 3 years	115,610	61,362
Total	<u>753,210</u>	<u>570,944</u>

51 Interests in structured entities**(a) Interests in structured entities consolidated by the Group**

Structured entities consolidated by the Group mainly stand for the asset management schemes where the Group involves as manager or investment consultant and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management product to a level of such significance that it indicates that the Group is a principal.

As at 31 December 2017, the Group consolidates 29 structured entities and remains the same with the year at 31 December 2016, which are mainly asset management schemes. As at 31 December 2017 and 31 December 2016, the total assets of the consolidated structured entities are RMB60,600,933 thousand and RMB84,733,108 thousand respectively, and the carrying amount of interests held by the Group in the consolidated structured entities are RMB5,610,164 thousand and RMB6,808,105 thousand respectively.

(b) Interests in structured entities sponsored by the Group but not consolidated

Structured entities for which the Group served as general partner or manager, therefore has power over them during the reporting periods are asset management schemes. Except for the structured entities that the Group has consolidated as set out in Note 51(a), the Group's exposure to the variable returns in the structured entities in which the Group has interest is not significant. The Group therefore did not consolidate these structured entities.

As at 31 December 2017 and 31 December 2016, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB897,646,449 thousand and RMB835,989,087 thousand respectively. As at 31 December 2017 and 31 December 2016, the carrying amount of interests held by the Group in these unconsolidated structured entities are RMB1,203,494 thousand and RMB570,174 thousand respectively.

During the years ended 31 December 2017 and 31 December 2016, income derived from these unconsolidated structured entities held by the Group amounted to RMB817,077 thousand and RMB1,015,178 thousand respectively.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

51 Interests in structured entities (continued)

(c) Interests in structured entities sponsored by third party institutions

The types of structured entities that the Group does not consolidate but in which it holds interests include funds, asset management schemes, trust schemes, and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at 31 December 2017 and 31 December 2016, which are listed as below:

As at 31 December 2017			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	42,143	17,439,657	17,481,800
Wealth management products	13,837,294	4,400,157	18,237,451
Total	<u>13,879,437</u>	<u>21,839,814</u>	<u>35,719,251</u>

As at 31 December 2016			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	688,970	22,744,645	23,433,615
Wealth management products	24,617,402	5,503,590	30,120,992
Total	<u>25,306,372</u>	<u>28,248,235</u>	<u>53,554,607</u>

52 Outstanding litigations

As at 31 December 2017 and 31 December 2016, the Group involved as defendant in certain lawsuit with claim amounts of approximately RMB2,252 thousand and RMB4,472 thousand, respectively. Based on the court rulings, advices from legal representatives and management judgement, no provision had been made to the claim amounts. The directors of the Company are of the opinion the final court judgement will not have a significant impact on the Group's financial position or operations.

53 Related party relationships and transactions

(a) Relationship of related parties

(i) Major shareholders

The detailed information of the transactions and balances with Group's major shareholders is set out in Note 53(b)(i).

(ii) Subsidiaries of the Group

The detailed information of the Group's subsidiaries is set out in Note 21.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***53 Related party relationships and transactions (continued)****(a) Relationship of related parties (continued)****(iii) Associates of the Group**

The detailed information of the Group's associates is set out in Note 22.

(iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals.

(b) Related parties transactions and balances**(i) Transactions between the Group and major shareholders:**

	As at 31 December	
	2017	2016
Balances at the end of the year:		
Financial assets at fair value through profit or loss		
—Jiangsu Guoxin Investment Group Limited	9,898	10,300
—Jiangsu Communications Holding Company Limited	147,740	151,054
Other receivables and prepayments		
—Jiangsu Guoxin Investment Group Limited	391	391
—Jiangsu Communications Holding Company Limited	1,010	1,017
Accounts payable to brokerage clients		
—Jiangsu Guoxin Investment Group Limited	50	50
—Jiangsu Communications Holding Company Limited	16	29
Other payables and accruals		
—Jiangsu Guoxin Investment Group Limited	3,211	3,211
	Year ended 31 December	
	2017	2016
Transactions during the year:		
Fee and commission income		
—Jiangsu Guoxin Investment Group Limited	7,112	253
—Jiangsu Communications Holding Company Limited	38	—
Net investment gains		
—Jiangsu Communications Holding Company Limited	5,815	5,768
—Jiangsu Guoxin Investment Group Limited	498	3,621

During the year of 2017 and 2016, the Group has disposed the corporate bonds issued by major shareholders amounting to RMB3,716 thousand and RMB251,983 thousand respectively.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Related party relationships and transactions (continued)

(b) Related parties transactions and balances (continued)

(ii) Transactions between the Group and associates:

	As at 31 December	
	2017	2016
Balances at the end of the year:		
Available-for-sale financial assets		
—Bank of Jiangsu Co., Ltd ⁽¹⁾	193,353	—
Financial assets at fair value through profit or loss		
—Bank of Jiangsu Co., Ltd	446,573	194,509
Accounts receivable		
—China Southern Asset Management Co., Ltd.	6,031	15,785
—Huatai-PineBridge Fund Management Co., Ltd.	7,407	18,316
—Jiangsu Huatai Strategic Emerging Industry Investment Fund (Limited Partnership)	50,001	—
—Jiangsu Huatai Internet Industry Investment Fund (Limited Partnership)	10,001	—
—Jiangsu Industry and Information Industry Investment Fund (Limited Partnership)	1,206	—
—Nanjing Huatai Onehealth NO.1 Equity Investment Fund (Limited Partnership) ⁽²⁾	320	—
—Nanjing Huatai Onehealth NO.2 Equity Investment Fund (Limited Partnership)	22	—
Other receivables and prepayments		
—Bank of Jiangsu Co., Ltd	6,214	1,694
—Huatai-PineBridge Fund Management Co., Ltd.	—	461
Cash and bank balances		
—Bank of Jiangsu Co., Ltd	508,923	418,617
Accounts payable to brokerage clients		
—China Southern Asset Management Co., Ltd.	81	65
—Huatai-PineBridge Fund Management Co., Ltd.	1	—
—Jiangsu Huatai Strategic Emerging Industry Investment Fund (Limited Partnership)	723	—
—Jiangsu Huatai Internet Industry Investment Fund (Limited Partnership)	238	—
—Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	8	—
Other payables and accruals		
—Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	513	—

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Related party relationships and transactions (continued)

(b) Related parties transactions and balances (continued)

(ii) Transactions between the Group and associates (continued):

	Year ended 31 December	
	2017	2016
Transactions during the year:		
Fee and commission income		
—China Southern Asset Management Co., Ltd.	44,510	47,070
—Huatai-PineBridge Fund Management Co., Ltd.	30,322	22,597
—Bank of Jiangsu Co., Ltd	15,094	17,130
—Huatai Zijin (Jiangsu) Equity Investment Fund (Limited Partnership)	15,572	19,714
—Jiangsu Industry and Information Industry Investment Fund (Limited Partnership)	1,138	1,169
—Jiangsu Huatai Internet Industry Investment Fund (Limited Partnership)	9,435	9,697
—Jiangsu Huatai Strategic Emerging Industry Investment Fund (Limited Partnership)	47,171	48,482
—Nanjing Huatai Onehealth NO.1 Equity Investment Fund (Limited Partnership)	24,412	—
—Nanjing Huatai Onehealth NO.2 Equity Investment Fund (Limited Partnership)	2,148	—
—Huatai Ruilian Fund Management Co., Ltd. ⁽³⁾	3,302	—
Fee and commission expenses		
—Bank of Jiangsu Co., Ltd	—	991
Interest income		
—Bank of Jiangsu Co., Ltd	84,582	3,832
Net investment gains		
—Bank of Jiangsu Co., Ltd	10,740	6,411
Other income and gains		
—China Southern Asset Management Co., Ltd.	1,552	1,104
—Huatai-PineBridge Fund Management Co., Ltd.	108	99
—Bank of Jiangsu Co., Ltd	6,644	6,031
—Jiangsu Huatai Ruilian Fund Management Co., Ltd	2	98

During the year of 2017 and 2016, the Group has subscribed the corporate bond issued by Bank of Jiangsu Co., Ltd for RMB445,417 thousand and RMB194,509 thousand.

During the year of 2017 and 2016, the capital injection made by the Group into the associates are RMB11,425 thousand and RMB336,550 thousand, respectively. During the year of 2017 and 2016, the disinvestment made by the Group from the associates are RMB128,142 thousand and RMB35,006 thousand, respectively.

During the year of 2017 and 2016, the dividend received from associates are RMB229,819 thousand and RMB211,000 thousand, respectively.

- (1) Since December 2017, Bank of Jiangsu Co., Ltd has been recognised as the Group's associate. The detailed information is set out in Note 22 (i).
- (2) Since February 2017, Nanjing Huatai Onehealth NO.1 Equity Investment (Limited Partnership) has been recognised as the Group's associate. The detailed information is set out in Note 21 (d) (i).

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Related party relationships and transactions (continued)

(b) Related parties transactions and balances (continued)

(ii) Transactions between the Group and associates (continued):

- (3) Since July 2017, Huatai Ruilian Fund Management Co., Ltd has been recognised as the Group's associate. The detailed information is set out in Note 21 (d) (ii).

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors is as follows:

	As at 31 December	
	2017	2016
Short-term employee benefits		
—Fees, salaries, allowances and bonuses	37,739	29,836
Post-employment benefits		
—Contribution to pension scheme	1,547	465
Total	39,286	30,301

Total remuneration is included in “staff costs” (see Note 10).

54 Segment reporting

In 2017, management began to allocate resources and assess the segment's performance according to the updated operating segment classification. Accordingly, the segment report for the relevant periods has been presented in a new way adopted by management in the financial statements. Management manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- The wealth management segment engages in the trading of stocks, funds, bonds and futures on behalf of clients, to provide customers with a variety of financial products sales services and asset allocation services. Moreover, the activities of providing margin financing, securities lending, securities-backed lending and sell financial products are included in this segment.
- The institutional services segment mainly provides investment banking business to clients, research and institutional sales, equity securities investments and transactions, fixed income investments and transactions, OTC financial products and transactions.
- The investment management segment mainly consists of asset management, private equity investment, alternative investments and commodities trading and arbitrage.
- The international business segment mainly includes the overseas business of overseas subsidiaries.
- Other segments include other operations of head office, mainly including interest income, share of profit of associates and joint venture, interest expenses of working capitals, and costs and expenses of middle offices and back offices.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Segment reporting (continued)

(a) Business segments

For the year ended 31 December 2017

	Wealth management	Institutional services	Investment management	International business	Others	Total
Revenue						
—External	14,008,278	5,327,644	2,589,743	3,669,575	3,982,287	29,577,527
—Inter-segment	18,067	62,243	1,437	—	1,988,854	2,070,601
Other income and gains	72,623	35,128	844,213	97,519	823,380	1,872,863
Segment revenue and other income	14,098,968	5,425,015	3,435,393	3,767,094	6,794,521	33,520,991
Segment expenses	(9,163,180)	(3,586,952)	(1,183,337)	(3,603,246)	(2,946,057)	(20,482,772)
Segment operating profit	4,935,788	1,838,063	2,252,056	163,848	3,848,464	13,038,219
Share of profit of associates and joint venture	—	2,984	39,283	—	497,711	539,978
Profit before income tax	4,935,788	1,841,047	2,291,339	163,848	4,346,175	13,578,197
Interest income	7,760,129	150,957	725,310	74,455	638,072	9,348,923
Interest expenses	(3,335,182)	(1,309,714)	(146,208)	(159,518)	(798,477)	(5,749,099)
Depreciation and amortisation expenses	(120,529)	(24,553)	(8,914)	(162,541)	(249,769)	(566,306)
Provision for impairment losses	(109,418)	(127,516)	(5,180)	(16,916)	—	(259,030)
Segment assets	178,175,834	73,362,625	74,160,523	15,835,319	160,953,261	502,487,562
Additions to non-current segment assets during the year	140,488	19,279	11,563	100,702	109,887	381,919
Segment liabilities	(174,949,018)	(69,430,859)	(58,290,110)	(8,049,167)	(103,178,496)	(413,897,650)

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Segment reporting (continued)

(a) Business segments (continued)

For the year ended 31 December 2016

	Wealth management	Institutional services	Investment management	International business	Others	Total
Revenue						
—External	14,970,579	5,016,768	3,177,655	378,247	720,730	24,263,979
—Inter-segment	952	—	—	—	548	1,500
Other income and gains	115,258	45,962	148,486	(19,903)	117,294	407,097
Segment revenue and other income	15,086,789	5,062,730	3,326,141	358,344	838,572	24,672,576
Segment expenses	(9,371,715)	(3,239,462)	(1,190,490)	(712,810)	(2,017,955)	(16,532,432)
Segment operating profit/(loss)	5,715,074	1,823,268	2,135,651	(354,466)	(1,179,383)	8,140,144
Share of profit of associates and joint venture	—	1,227	(1,003)	—	453,763	453,987
Profit/(loss) before income tax	5,715,074	1,824,495	2,134,648	(354,466)	(725,620)	8,594,131
Interest income	7,629,151	247,231	525,540	34,420	441,604	8,877,946
Interest expenses	(3,311,879)	(973,204)	(146,497)	(134,189)	(828,850)	(5,394,619)
Depreciation and amortisation expenses	(104,627)	(21,587)	(5,217)	(29,247)	(247,849)	(408,527)
(Provision for)/reversal of impairment losses	(18,421)	56,781	(905)	—	(702)	36,753
Segment assets	187,696,676	51,116,715	106,629,487	13,798,939	163,392,861	522,634,678
Additions to non-current segment assets during the year	145,363	30,780	22,850	68,324	164,800	432,117
Segment liabilities	(185,273,352)	(48,657,710)	(91,011,607)	(6,380,389)	(105,651,423)	(436,974,481)

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***54 Segment reporting (continued)****(a) Business segments (continued)**

Reconciliations of segment revenues, profit or loss, assets and liabilities:

	Year ended 31 December	
	2017	2016
Revenue		
Total revenue and other income for segments	33,520,991	24,672,576
Elimination of inter-segment revenue	(2,197,619)	(40,948)
Consolidated revenue and other income	<u>31,323,372</u>	<u>24,631,628</u>
Profit		
Total profit before income tax for segments	13,578,197	8,594,131
Elimination of inter-segment profit	(1,993,553)	(703)
Consolidated profit before income tax	<u>11,584,644</u>	<u>8,593,428</u>
	As at 31 December	
	2017	2016
Assets		
Total assets for segments	502,487,562	522,634,678
Elimination of inter-segment assets	(121,005,022)	(121,184,281)
Consolidated total assets	<u>381,482,540</u>	<u>401,450,397</u>
Liabilities		
Total liabilities for segments	(413,897,650)	(436,974,481)
Elimination of inter-segment liabilities	121,005,022	121,184,281
Consolidated total liabilities	<u>(292,892,628)</u>	<u>(315,790,200)</u>

For the year ended 31 December 2017 and 31 December 2016, the Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue.

(Expressed in thousands of Renminbi, unless otherwise stated)

(b) Geographical segments

Segment Revenue

F-90

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management

The Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

During the reporting period, the Group was exposed to three types of credit risk: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses arising from default of customers in credit business such as margin financing and securities lending, securities-backed lending and stock repurchases; (iii) counterparty credit risk from a counterparty's default on the derivative transaction, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives.

The Group uses its risk management systems to monitor its credit risk on a real time basis, keep track of the credit risk of the Group's business products and its transaction counterparties, provide analyses and pre-warning reports, and adjust its credit limits in a timely manner. The Group will also measure the credit risks of its major operations through stress test and sensitivity analysis.

For credit risk in debt securities trading, the Group monitors the issuer and bonds during the reporting period. The Group established the credit rating framework and conducted research on the debt securities held by the Group. The Group also assessed the creditability of counterparties to mitigate related default risk. In respect of margin financing and securities lending, securities-backed lending, stock repurchases business and OTC derivative transaction, the Group evaluate the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determine the customers' credit rating. Penalties for defaults were specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending, stock repurchases business and OTC derivative transaction and promptly communicated with customers on any abnormalities identified to avoid defaults. In respect of innovative credit business, preliminary due diligence was performed with a comprehensive project feasibility report and a due diligence report submitted for approval by the Group before a project can be launched.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure to credit risk

Maximum exposure to credit risk of the Group without taking account of any collateral and other credit enhancements:

	As at 31 December	
	2017	2016
Held-to-maturity investments	—	5,000
Refundable deposits	7,302,285	8,158,628
Accounts receivable	1,980,337	991,413
Other receivables and prepayments	5,874,665	4,815,938
Margin accounts receivable	59,991,454	56,605,104
Available-for-sale financial assets	15,111,937	980,430
Financial assets held under resale agreements	61,805,315	46,331,182
Financial assets at fair value through profit or loss	56,212,040	52,345,113
Derivative financial assets	391,714	106,591
Clearing settlement funds	1,147,448	1,228,801
Cash held on behalf of brokerage clients	65,303,548	94,568,934
Bank balances	27,025,936	45,229,651
Total maximum credit risk exposure	302,146,679	311,366,785

(ii) Risk concentrations

The Group's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical area:

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2017			
Held-to-maturity investments	—	—	—
Refundable deposits	7,282,060	20,225	7,302,285
Accounts receivable	1,310,968	669,369	1,980,337
Other receivables and prepayments	5,639,939	234,726	5,874,665
Margin accounts receivable	59,446,149	545,305	59,991,454
Available-for-sale financial assets	14,588,030	523,907	15,111,937
Financial assets held under resale agreements	61,701,827	103,488	61,805,315
Financial assets at fair value through profit or loss	52,649,484	3,562,556	56,212,040
Derivative financial assets	362,787	28,927	391,714
Clearing settlement funds	1,144,099	3,349	1,147,448
Cash held on behalf of brokerage clients	64,580,719	722,829	65,303,548
Bank balances	26,033,443	992,493	27,025,936
Total maximum credit risk exposure	294,739,505	7,407,174	302,146,679

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(a) Credit risk (continued)

(ii) Risk concentrations (continued)

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2016			
Held-to-maturity investments	5,000	—	5,000
Refundable deposits	8,150,415	8,213	8,158,628
Accounts receivable	593,295	398,118	991,413
Other receivables and prepayments	4,792,049	23,889	4,815,938
Margin accounts receivable	56,523,470	81,634	56,605,104
Available-for-sale financial assets	514,802	465,628	980,430
Financial assets held under resale agreements	46,194,762	136,420	46,331,182
Financial assets at fair value through profit or loss	51,008,899	1,336,214	52,345,113
Derivative financial assets	99,728	6,863	106,591
Clearing settlement funds	1,226,168	2,633	1,228,801
Cash held on behalf of brokerage clients	93,875,719	693,215	94,568,934
Bank balances	42,756,372	2,473,279	45,229,651
Total maximum credit risk exposure	305,740,679	5,626,106	311,366,785

(iii) Credit rating analysis of financial assets

The Group adopts credit rating method to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referred from major rating institutions in which debt issuers located. The carrying amounts of debt securities at the end of the reporting period are categorised by rating distribution as follows:

Rating	As at 31 December	
	2017	2016
—AAA	22,224,921	6,341,889
—From A to AA+	16,930,027	17,285,585
—A-1	1,839,755	719,150
—C	3,822	3,951
Sub-total	40,998,525	24,350,575
Non-rated ⁽¹⁾	29,153,471	26,928,346
Total	70,151,996	51,278,921

(1) Non-rated financial assets mainly represent debts instruments issued by the Ministry of Finance of the People's Republic of China, the PBOC, and policy banks, which are creditworthy issuers in the market, private bonds and trading securities, which are not rated by independent rating agencies.

(b) Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes: (1) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small; (2) funding liquidity of being unable to meet financial obligations when they come due.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(b) Liquidity risk (continued)

The following tables show the details of the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities. Analysis of non-derivative financial liabilities are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2017						
	Carrying amount	Overdue/repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
Financial Liabilities							
Short-term bank loans	—	—	—	—	—	—	—
Short-term debt instruments issued	26,656,010	—	1,695,614	7,068,370	18,910,148	—	27,674,132
Placements from other financial institutions	7,029,998	—	500,632	3,589,005	3,107,414	—	7,197,051
Accounts payable to brokerage clients	67,335,545	67,335,545	—	—	—	—	67,335,545
Other payables and accruals	59,662,972	57,996,544	1,002,745	663,683	—	—	59,662,972
Financial assets sold under repurchase agreements	24,921,537	—	22,441,170	—	1,545,305	1,001,959	24,988,434
Derivative financial liabilities	1,642,283	—	7,962	64,231	730,844	839,246	1,642,283
Financial liabilities at fair value through profit or loss	14,381,328	239,836	99,139	80,682	11,744,914	955,794	14,510,240
Long-term bonds	77,198,276	—	—	228,000	24,688,107	54,364,350	85,586,457
Total	278,827,949	125,571,925	25,747,262	11,693,971	60,726,732	57,161,349	288,597,114

(Expressed in thousands of Renminbi, unless otherwise stated)

(b) Liquidity risk (continued)

(c) *Market risk*

(i) Interest rate risk

F-95

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Group mainly manages interest rate risk through structuring and adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risks and improving profitability by diversification of assets.

The following tables indicate the assets and liabilities as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	As at 31 December 2017					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing
Financial assets						Total
Held-to-maturity investments	—	—	—	—	—	—
Available-for-sale financial assets	402,803	1,157,260	2,291,058	10,990,383	264,841	29,476,823
Financial assets held under resale agreements	13,483,775	6,410,616	33,486,620	8,424,304	—	—
Refundable deposits	7,302,285	—	—	—	—	—
Accounts receivable	—	—	—	—	—	1,980,337
Other receivables and prepayments	—	—	—	—	—	243,684
Margin accounts receivable	2,840,227	11,280,123	45,871,104	—	—	—
Financial assets at fair value through profit or loss	4,529,394	3,530,753	15,076,705	28,753,635	4,321,554	28,338,381
Derivative financial assets	2,691	—	—	—	—	389,023
Clearing settlement funds	1,147,448	—	—	—	—	—
Cash held on behalf of brokerage clients	65,303,548	—	—	—	—	—
Cash and bank balances	9,792,912	7,150,000	10,083,024	—	—	194
Total	104,805,083	29,528,752	106,808,511	48,168,322	4,586,395	60,428,442
						354,325,505

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	As at 31 December 2017					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing
Financial liabilities						
Short-term bank loans	—	—	—	—	—	—
Short-term debt instruments issued	(1,684,690)	(6,983,030)	(17,988,290)	—	—	(26,656,010)
Placements from other financial institutions	(500,000)	(3,500,000)	(3,029,998)	—	—	(7,029,998)
Accounts payable to brokerage clients	(67,335,545)	—	—	—	—	(67,335,545)
Other payables and accruals	—	—	—	—	—	(59,662,972)
Financial assets sold under repurchase agreements	(22,421,537)	—	(1,500,000)	(1,000,000)	—	(24,921,537)
Derivative financial liabilities	(6,372)	—	—	—	—	(1,635,911)
Financial liabilities at fair value through profit or loss	(99,139)	(80,535)	(11,616,150)	—	—	(2,585,504)
Long-term bonds	—	—	(21,597,480)	(49,608,478)	(5,992,318)	(77,198,276)
Total	(92,047,283)	(10,563,565)	(55,731,918)	(50,608,478)	(5,992,318)	(63,884,387)
Net interest rate risk exposure	12,757,800	18,965,187	51,076,593	(2,440,156)	(1,405,923)	(3,455,945)
						75,497,556

(Expressed in thousands of Renminbi, unless otherwise stated)

(c) *Market risk (continued)*

As at 31 December 2016

	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	Total
Financial assets							
Held-to-maturity investments	—	—	5,000	—	—	—	5,000
Available-for-sale financial assets	1,012,286	178,870	147,930	561,320	—	41,836,156	43,736,562
Financial assets held under resale agreements	8,829,847	4,333,892	24,237,047	8,930,396	—	—	46,331,182
Refundable deposits	2,524,843	—	—	—	—	5,633,785	8,158,628
Accounts receivable	—	—	—	—	—	991,413	991,413
Other receivables and prepayments	—	—	—	—	—	661,835	661,835
Margin accounts receivable	3,168,277	6,338,674	47,053,199	44,954	—	—	56,605,104
Financial assets at fair value through profit or loss	21,709,237	3,979,318	19,863,618	25,050,734	2,754,688	9,749,636	83,107,231
Derivative financial assets	—	6,236	4,834	—	—	95,521	106,591
Clearing settlement funds	1,228,801	—	—	—	—	—	1,228,801
Cash held on behalf of brokerage clients	94,568,934	—	—	—	—	—	94,568,934
Cash and bank balances	19,307,986	10,520,950	15,000,715	400,000	—	381	45,230,032
Total	152,350,211	25,357,940	106,312,343	34,987,404	2,754,688	58,968,727	380,731,313

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	As at 31 December 2016					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing
Financial liabilities						Total
Short-term bank loans	(3,255)	—	(457,000)	—	—	(460,255)
Short-term debt instruments issued	(1,381,000)	(160,000)	(80,000)	—	—	(1,621,000)
Placements from other financial institutions	(1,150,000)	(5,500,000)	—	—	—	(6,650,000)
Accounts payable to brokerage clients	(92,728,837)	—	—	—	—	(92,728,837)
Other payables and accruals	—	—	—	—	(77,105,368)	(77,105,368)
Financial assets sold under repurchase agreements	(12,281,375)	(1,050,000)	(6,132,000)	—	—	(19,463,375)
Derivative financial liabilities	(2,015)	(19,096)	(3,286)	—	—	(839,614)
Financial liabilities at fair value through profit or loss	(29,251)	(1,313,185)	(1,055,600)	(13,722,800)	—	(27,919,978)
Long-term bonds	(6,000,000)	(1,000,000)	(18,900,000)	(43,956,752)	(5,991,064)	(75,847,816)
Total	(113,575,733)	(9,042,281)	(26,627,886)	(57,679,552)	(5,991,064)	(302,660,640)
Net interest rate risk exposure	38,774,478	16,315,659	79,684,457	(22,692,148)	(3,236,376)	78,070,673

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***55 Financial instruments and risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)****Sensitivity analysis**

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net profit and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

		Sensitivity of net profit	
		As at 31 December	
		2017	2016
Move in yield curve			
Up 100 basis points		(601,891)	(486,257)
Down 100 basis points		625,927	504,109
		Sensitivity of equity	
		As at 31 December	
		2017	2016
Move in yield curve			
Up 100 basis points		(822,556)	(487,657)
Down 100 basis points		856,034	505,529

The sensitivity analysis above indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(ii) Currency risk

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation of foreign exchange rates. The Group adopts sensitivity analysis to measure currency risk.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***55 Financial instruments and risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

Assuming all other risk variables remained constant and without consideration of risk management measures undertaken by the Group, a 10% strengthening of the RMB against the US dollar (“USD”) and HKD at the reporting date would have increased/ (decreased) the Group’s equity and net profit by the amount shown below, whose effect is in RMB and translated using the spot rate at the reporting date:

<u>Currency</u>	<u>Sensitivity of net profit</u>	
	<u>As at 31 December</u>	
	<u>2017</u>	<u>2016</u>
USD	(483,209)	1,977
HKD	(218,579)	(54,442)

<u>Currency</u>	<u>Sensitivity of equity</u>	
	<u>As at 31 December</u>	
	<u>2017</u>	<u>2016</u>
USD	(541,162)	(56,715)
HKD	(219,299)	(54,442)

A 10% weakening of the RMB against the USD and HKD at balance date would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

Due to the above assumptions, the result of sensitivity analysis on exchange rate changes may be different, compared with the actual changes in the Group’s net profit and equity of may arise with this.

(iii) Price risk

The Group is exposed to equity price changes arising from equity investments concluded in financial instruments at fair value through profit or loss and available-for-sale financial instruments. Price risk the Group facing is mainly the proportionate fluctuation in the Group’s net profits due to the price fluctuation of the held for trading financial instruments and the proportionate fluctuation in the Group’s equity due to the price fluctuation of the held for trading and available-for-sale financial instruments.

Sensitivity analysis

The analysis below is performed to show the impact on Group’s net profit and equity due to change in the prices of equity securities by 10% with all other variables held constant.

	<u>Sensitivity of net profit</u>	
	<u>As at 31 December</u>	
	<u>2017</u>	<u>2016</u>
Increase by 10%	897,230	73,554
Decrease by 10%	(897,230)	(73,554)

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(c) Market risk (continued)

(iii) Price risk (continued)

	Sensitivity of equity	
	As at 31 December	
	2017	2016
Increase by 10%	3,109,511	3,282,411
Decrease by 10%	(3,109,511)	(3,282,411)

The sensitivity analysis indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2017 and 2016.

(d) Capital management

The Group's objectives of capital management are:

- (i) To safeguard the Group's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's stability and growth;
- (iii) To maintain a strong capital base to support the development of their business; and
- (iv) To comply with the capital requirements under the PRC, Hong Kong and the United States regulations.

As at 16 June 2016, Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Revised Administrative Measures") and Calculation Standard for Risk Control Indicators of Securities Companies were issued by the CSRC. The Company is required to meet the following standards for risk control indicators on a continual basis from 1 October 2016:

- (i) The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
- (ii) The ratio of net capital divided by net assets shall be no less than 20% ("Ratio 2");
- (iii) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");
- (iv) The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio 4");
- (v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5");
- (vi) The ratio of the value of non-equity securities and derivatives held divided by net capital shall not exceed 500% ("Ratio 6");

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***55 Financial instruments and risk management (continued)****(d) Capital management (continued)**

- (vii) The ratio of core net capital divided by on balance sheet and off balance sheet assets shall be no less than 8% (“Ratio 7”);
- (viii) The ratio of high quality liquidity assets divided by net cash outflows for the next 30 days shall be no less than 100% (“Ratio 8”);
- (ix) The ratio of available stable funds divided by required stable funds shall be no less than 100% (“Ratio 9”); and
- (x) The ratio of margin financing (including securities lending) divided by net capital shall not exceed 400% (“Ratio 10”).

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Revised Administrative Measures.

As at 31 December 2017 and 31 December 2016, the Company maintained net capital and the above ratios as follows:

	Year ended 31 December	
	2017	2016
Net Capital	46,742,933	45,122,196
Ratio 1	193.75%	206.71%
Ratio 2	59.41%	59.42%
Ratio 3	29.75%	38.09%
Ratio 4	50.08%	64.10%
Ratio 5	60.50%	55.38%
Ratio 6	108.16%	65.95%
Ratio 7	19.05%	21.35%
Ratio 8	619.25%	246.05%
Ratio 9	130.39%	139.68%
Ratio 10	220.53%	193.75%

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements under the Mainland China, Hong Kong and the United States regulatory requirements, respectively. These subsidiaries comply with the capital requirements during the years ended 31 December 2017 and 31 December 2016.

(e) Transfer of financial assets

The Group transferred financial assets to certain counterparties through repurchase agreements, securities lending and asset-backed securities scheme. These securities, margin accounts receivable and securities-backed lending are not derecognised from the consolidated statement of financial position because the Group retains substantially all the risks and rewards of these securities, margin loans and securities-backed lending.

The Group entered into repurchase agreements with certain counterparties to sell debt securities classified as financial assets at fair value through profit or loss, margin accounts receivable and financial assets held under resale agreements. Sales and repurchase agreements are transactions in which the Group sell a security, rights and interests in a margin accounts receivable or securities-

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(e) Transfer of financial assets (continued)

backed lending and agree to repurchase it at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests sold. These securities, margin accounts receivable and financial assets held under resale agreements are not derecognised from the consolidated statement of financial position because the Group retains substantially all the risks and rewards of these financial assets.

The Group entered into securities lending agreements with clients to lend out its equity securities and exchange-traded funds classified as fair value through profit or loss and available-for-sale financial assets. As stipulated in the securities lending agreements, the legal ownership of these equity securities and exchange-traded funds is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised these securities in the consolidated statement of financial position.

The Group sells margin accounts receivable to the securitisation vehicle, which in turn issue asset-backed securities to investors with the purchased assets as the underlying assets. Such securitisation vehicle is consolidated by the Group, consequently the underlying assets are transferred from the Group to the investors. The Group has the obligation to pass cash flows from the underlying assets to the investors.

The cash flows that the securitisation vehicle collect from the transferred assets has not been passed through to investors without material delay, and the Group has the obligation to repurchase these margin accounts receivable on specified future dates and at agreed-upon prices. Thus the Group has not derecognised these financial assets in the consolidated statements of financial position. The consideration received from the investors is recognised as a financial liability.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(e) Transfer of financial assets (continued)

The following tables provide a summary of carrying amounts and fair values of the transferred financial assets that are not derecognised in their entirety and the associated liabilities:

As at 31 December 2017

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Margin accounts receivable	Financial assets held under resale agreements	Total
	Sales and repurchase agreements	Securities lending	Securities lending	Margin loans receivable backed repurchase	Securities -backed lending	
Carrying amount of transferred assets	—	—	5,592	2,716,389	—	2,721,981
Carrying amount of associated liabilities	—	—	—	(2,500,000)	—	(2,500,000)
Net position	—	—	5,592	216,389	—	221,981

As at 31 December 2016

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Margin accounts receivable	Financial assets held under resale agreements	Total
	Sales and repurchase agreements	Securities lending	Securities lending	Margin loans receivable backed repurchase	Securities -backed lending	
Carrying amount of transferred assets	—	—	—	7,431,807	1,366,900	8,798,707
Carrying amount of associated liabilities	—	—	—	(5,800,000)	(1,252,000)	(7,052,000)
Net position	—	—	—	1,631,807	114,900	1,746,707

(f) Offsetting financial assets and financial liabilities

The Group offsets the related financial assets and financial liabilities when the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realise the balances simultaneously.

The Group has entered into master netting arrangements with counterparties for the derivative instruments.

Under the agreement signed between the Group and the customers, money obligations receivable and payable with the same customers on the same settlement date are settled on net basis.

Under the agreement of continuous net settlement made between the Group and clearing house, money obligations receivables and payables with clearing house on the same settlement date are settled on net basis.

(Expressed in thousands of Renminbi, unless otherwise stated)

(f) Offsetting financial assets and financial liabilities (continued)

As at 31 December 2017

F-106

(Expressed in thousands of Renminbi, unless otherwise stated)

(f) Offsetting financial assets and financial liabilities (continued)

As at 31 December 2016

[illegible]

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Financial instruments and risk management (continued)

(f) Offsetting financial assets and financial liabilities (continued)

Except for the enforceable master netting arrangements and the offset-right of the financial instruments under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreements and financial assets sold under repurchase agreements are disclosed in the corresponding notes, which are generally not on the net basis in the consolidated statement of financial position.

However, the risk exposure associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. As at 31 December 2017 and 31 December 2016, the fair value of the collaterals related to the above items exceeded the book value of those financial instruments, net exposure is insignificant after setting off the collaterals.

56 Fair value information

(a) Fair value of financial instruments

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held on behalf of brokerage clients, clearing settlement funds, financial assets held under resale agreements, and financial liabilities including placements from other financial institutions, short-term bank loans and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate the fair values.
- (ii) Financial instruments at fair value through profit or loss, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active open markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.
- (iii) The fair values of held-to-maturity investments, short-term debt instruments issued and long-term bonds are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as credit risk and maturity, to estimate the fair values using pricing models or discounted cash flow.
- (iv) Accounts receivable, other receivables and prepayments, margin accounts receivable, and accounts payable to brokerage clients are within one year. Accordingly, the carrying amounts approximate the fair values.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

56 Fair value information (continued)

(b) Fair value of other financial instruments (carried at other than fair value)

The carrying amount and fair value of held-to-maturity investments, short-term debt instruments issued and long-term bonds which are not presented at fair value are listed as below:

Carrying amount

	As at 31 December	
	2017	2016
<i>Financial assets</i>		
—Held-to-maturity investments	—	5,000
Total	—	5,000
<i>Financial liabilities</i>		
—Short-term debt instruments issued	(26,656,010)	(1,621,000)
—Long-term bonds	(77,198,276)	(75,847,816)
Total	(103,854,286)	(77,468,816)

Fair value

	2017			
	Level I	Level II	Level III	Total
<i>Financial assets</i>				
—Held-to-maturity investments	—	—	—	—
Total	—	—	—	—
<i>Financial liabilities</i>				
—Short-term debt instruments issued	—	—	26,656,010	26,656,010
—Long-term bonds	73,824,987	—	3,000,000	76,824,987
Total	73,824,987	—	29,656,010	103,480,997
	2016			
	Level I	Level II	Level III	Total
<i>Financial assets</i>				
—Held-to-maturity investments	—	5,091	—	5,091
Total	—	5,091	—	5,091
<i>Financial liabilities</i>				
—Short-term debt instruments issued	—	—	1,621,000	1,621,000
—Long-term bonds	70,813,922	—	4,900,000	75,713,922
Total	70,813,922	—	6,521,000	77,334,922

The fair values of the financial assets and financial liabilities included in the level II and III categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost and available-for-sale financial assets at cost less impairment in the Group's statements of financial position approximate their fair values.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 Fair value information (continued)

(c) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2017			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
—Debt securities	25,688,578	29,357,072	—	55,045,650
—Equity securities	6,561,929	1,082,457	—	7,644,386
—Funds	17,069,017	391,211	—	17,460,228
—Wealth management products	468,364	1,018,696	1,116,430	2,603,490
Financial assets designated at fair value through profit or loss				
—Equity securities	—	1,796,667	—	1,796,667
Available-for-sale financial assets				
—Debt securities	11,068,223	3,992,891	45,231	15,106,345
—Equity securities	9,312,807	1,140,727	6,548,624	17,002,158
—Funds	124,338	42,142	—	166,480
—Wealth management products	—	12,308,185	—	12,308,185
Derivative financial assets	37,490	99,623	254,601	391,714
Total	70,330,746	51,229,671	7,964,886	129,525,303
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	(11,818,892)	(88,445)	—	(11,907,337)
Financial liabilities designated at fair value through profit or loss	—	(128,324)	(2,345,668)	(2,473,992)
Derivative financial liabilities	(29,537)	(1,386,261)	(226,485)	(1,642,283)
Total	(11,848,429)	(1,603,030)	(2,572,153)	(16,023,612)

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 Fair value information (continued)

(c) Fair value hierarchy (continued)

	2016			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
—Debt securities	18,974,811	31,318,680	—	50,293,491
—Equity securities	4,379,288	186,218	—	4,565,506
—Funds	22,744,645	—	—	22,744,645
—Wealth management products	2,523,090	954,625	731,430	4,209,145
Financial assets designated at fair value through profit or loss				
—Equity securities	—	1,294,444	—	1,294,444
Available-for-sale financial assets				
—Debt securities	886,728	—	93,702	980,430
—Equity securities	9,092,231	6,883,073	10,361,224	26,336,528
—Funds	686,012	2,958	—	688,970
—Wealth management products	165,110	15,365,524	200,000	15,730,634
Derivative financial assets	8,005	78,345	20,241	106,591
Total	<u>59,459,920</u>	<u>56,083,867</u>	<u>11,406,597</u>	<u>126,950,384</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	(1,548,466)	—	—	(1,548,466)
Financial liabilities designated at fair value through profit or loss	—	(14,930,601)	(11,440,911)	(26,371,512)
Derivative financial liabilities	(6,240)	(847,361)	(10,410)	(864,011)
Total	<u>(1,554,706)</u>	<u>(15,777,962)</u>	<u>(11,451,321)</u>	<u>(28,783,989)</u>

For the year ended 31 December 2017, there was a transfer of amount RMB623,245 thousand from Level I to Level II due to its active trading as at 31 December 2016 while suspended from trading as at 31 December 2017. For the year ended 31 December 2016, there was a transfer from Level III to Level II due to the listing of equity securities with lock-up period. There was no significant transfer among Level I and Level II in 2016. For the year ended, there were no significant transfer between Level II and Level III of the fair value hierarchy.

(i) Financial instruments in Level I

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 I. Instruments included in Level I comprise primarily securities traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange classified as trading securities or available for sale.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 Fair value information (continued)

(c) Fair value hierarchy (continued)

(ii) Financial instruments in Level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise 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 II.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level III.

(iii) Valuation methods for specific investments

As at 31 December 2017 and 31 December 2016, 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. For those which has no quoted market price or those with lock-up periods as at the reporting date, valuation techniques are used to determine the fair value.
- (2) For exchange-listed 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-end funds and wealth 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, fair values are determined based on the closing price within bid-ask spread of the debt securities at the date of statements of financial position.
- (4) For debt securities traded through the inter-bank bond market and OTC market, fair values are determined using valuation techniques.
- (5) For gold leasing and derivative financial instruments, fair value is determined using valuation techniques.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 Fair value information (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2017	731,430	10,654,925	20,242	(11,440,911)	(10,409)	(44,723)
Gains or losses for the year	39,646	2,599	273,157	419,540	(159,084)	575,858
Changes in fair value recognised in other comprehensive income	—	(856,525)	—	—	—	(856,525)
Purchases	385,000	4,400,136	10,238	—	(45,394)	4,749,980
Sales and settlements	(39,646)	(7,607,280)	(49,036)	8,675,703	(11,598)	968,143
As at 31 December 2017	1,116,430	6,593,855	254,601	(2,345,668)	(226,485)	5,392,733
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	—	—	239,690	419,540	(176,003)	483,227

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2016	1,444,571	9,298,723	156,585	—	(295)	10,899,584
Gains or losses for the year	5,522	8,183	(17,539)	(585,431)	2,550	(586,715)
Changes in fair value recognised in other comprehensive income	—	2,912,765	—	—	—	2,912,765
Purchases	60,000	4,432,424	—	(10,855,480)	(10,018)	(6,373,074)
Sales and settlements	(778,663)	(5,997,170)	(118,804)	—	(2,646)	(6,897,283)
As at 31 December 2016	731,430	10,654,925	20,242	(11,440,911)	(10,409)	(44,723)
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	3,055	—	—	(585,431)	(3,575)	(585,951)

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 Fair value information (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III (continued)

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III 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 III.

Financial assets and liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Wealth management products and private placement bonds	Level III	Discounted cash flow model	Risk adjusted discount rate	The higher the risk adjusted discount rate, the lower the fair value
Unlisted equity investment	Level III	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value
Financial liabilities arising from consolidation of private equity funds	Level III	Market comparable companies of the underlying portfolios	Discount for lack of marketability	The higher the discount, the lower the fair value
Over-the-counter options	Level III	Black-Scholes option pricing model	Price volatility of underlying assets	The higher the price volatility, the greater the impact on the fair value
		Monte-Carlo option pricing model	Price volatility of underlying assets	The higher the price volatility, the greater the impact on the fair value

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

57 Company-level statement of financial position

	Note	As at 31 December	
		2017	2016
Non-current assets			
Property and equipment		2,594,595	2,443,530
Investment properties		1,742,738	2,028,931
Other intangible assets		429,142	432,715
Investments in subsidiaries		17,661,632	17,301,632
Interest in associates		7,511,414	2,149,482
Held-to-maturity investments		—	5,000
Available-for-sale financial assets		23,739,044	20,909,233
Financial assets held under resale agreements		8,059,703	7,751,396
Financial assets at fair value through profit or loss		1,796,667	1,294,444
Refundable deposits		1,435,529	1,833,842
Other non-current assets		63,118	61,948
Total non-current assets		<u>65,033,582</u>	<u>56,212,153</u>
Current assets			
Accounts receivable		678,545	151,497
Other receivables and prepayments		4,612,915	3,083,018
Margin accounts receivable		59,446,149	56,523,470
Available-for-sale financial assets		12,314,388	8,777,045
Financial assets held under resale agreements		43,660,746	24,225,509
Financial assets at fair value through profit or loss		37,487,496	27,199,271
Derivative financial assets		349,248	81,459
Clearing settlement funds		2,343,723	1,750,341
Cash held on behalf of brokerage clients		50,091,944	77,887,650
Cash and bank balances		9,585,562	15,498,654
Total current assets		<u>220,570,716</u>	<u>215,177,914</u>
Total assets		<u>285,604,298</u>	<u>271,390,067</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

57 Company-level statement of financial position (continued)

	Note	As at 31 December	
		2017	2016
Current liabilities			
Short-term debt instruments issued		26,656,010	1,621,000
Placements from other financial institutions		7,029,998	6,650,000
Accounts payable to brokerage clients		48,862,822	71,803,690
Employee benefits payable		1,403,619	1,291,016
Other payables and accruals		8,213,316	9,458,152
Current tax liabilities		—	91,202
Financial assets sold under repurchase agreements		20,114,159	10,520,963
Financial liabilities at fair value through profit or loss		11,795,824	2,398,036
Derivative financial liabilities		1,601,480	851,834
Long-term banks loans due within one year		—	—
Long-term bonds due within one year		21,597,480	25,900,000
Total current liabilities		147,274,708	130,585,893
Net current assets		73,296,008	84,592,021
Total assets less current liabilities		138,329,590	140,804,174
Non-current liabilities			
Long-term bonds		52,992,318	46,583,195
Long-term bank loans		—	—
Non-current employee benefits payable		5,151,000	4,225,060
Deferred tax liabilities		503,471	330,909
Financial assets sold under repurchase agreements		1,000,000	—
Financial liabilities at fair value through profit or loss		—	13,722,800
Total non-current liabilities		59,646,789	64,861,964
Net assets		78,682,801	75,942,210
Equity			
Share capital	49(a)	7,162,769	7,162,769
Reserves		58,568,671	58,184,745
Retained profits		12,951,361	10,594,696
Total equity		78,682,801	75,942,210

Approved and authorised for issue by the board of directors on 11 June 2019.

Zhou Yi	Chen Chuanming
Chairman of the Board, Executive director and President	Director

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017

Up to the date of issue of the financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 15, Revenue from contracts with customers	1 January 2018
IFRS 9, Financial instruments	1 January 2018
IFRS 16, Leases	1 January 2019
Amendments to IAS 40, Investment Property	1 January 2018
Amendments to IFRS 2, Share-based payment	1 January 2018
Annual Improvements 2014-2016 Cycle, Amendments to IFRS 1 and IAS 28	1 January 2018
Amendments to IFRS 10 and IAS 28, Sales or Contribution of Assets between An Investor and Its Associate or Joint Venture	No mandatory effective date yet determined
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

Except as described below, the application of the new and revised IFRS will have no material impact on the Group's financial statements.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

- debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise to cash flows that are

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 9, Financial instruments (continued)

(a) Classification and measurement (continued)

solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments are measured at their fair value.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on its assessment, the Group has estimated its equity at 31 December 2017 would decrease under IFRS 9 as compared with that under IAS 39.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). Up to 31 December 2017, there is no change in the fair value that is attributable to changes in the credit risk for the Group's designated financial liabilities at FVTPL. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would increase and equity would decrease as compared with that recognised under IAS 39.

(c) Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. As the Group does not apply hedge accounting thus the Group has estimated that the hedge accounting requirements of IFRS 9 has no material impact on the Group's financial statements.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 9, Financial instruments (continued)

(d) Disclosures

IFRS 9 requires extensive new disclosures, in particular about credit risk and ECLs. The Group has implemented the system and controls changes that it believes is necessary to capture the required data.

Based on the initial assessment, the adoption of the new requirements of classification and measurement, impairment and hedge accounting in IFRS 9 would decrease the Group's net assets at 31 December 2017 by less than 1%.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5 steps approach to revenue recognition:

Step 1. Identify the contract(s) with the customer.

Step 2. Identify the performance obligations in the contract.

Step 3. Determine the transaction price.

Step 4. Allocate the transaction price to the performance obligations in the contract.

Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group has assessed the impact on the financial statements resulting from the application of IFRS 15. So far it has concluded that the adoption of IFRS 15 has no significant impact on the Group's results of operations and financial position.

IFRS 16, Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC—15 Operating Leases—Incentives and SIC—27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 16, Leases (continued)

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

When IFRS 16 is adopted in the future, it is expected that certain portion of lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. Other than the recognition of lease liabilities and right-of-use assets, the Group does not expect the adoption of IFRS 16 would result in a significant impact on the Group's equity.

59 Events after the reporting date

(a) Issuance of bonds

On 15 March 2018, the Company completed the issuance of the first tranche of 2018 subordinated bond with a nominal value of RMB1 billion. The long-term bond bear interest at 5.65% per annum with a maturity of 2 years.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Events after the reporting date (continued)

(a) Issuance of bonds (continued)

On 10 May 2018, the Company completed the issuance of the second tranche of 2018 subordinated bond with a nominal value of RMB2.8 billion. The long-term bond bear interest at 5.20% per annum with a maturity of 3 years.

On 11 June 2018, the Company has issued the first tranche of 1-year corporate bond with a nominal amount of RMB4.6 billion, bearing interest at 5.00% per annum.

On 26 November 2018, the Company has publicly issued 3-year corporate bond with a nominal amount of RMB3 billion and 5-year corporate bond with a nominal amount of 1 billion, bearing interest at 3.88% and 4.17% respectively, to qualified investors.

On 19 March 2019, the Company has publicly issued 3-year corporate bond with a nominal amount of RMB7 billion, bearing interest at 3.68% to qualified investors.

On 22 April 2019, the Company has publicly issued 3-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.80% to qualified investors.

On 25 April 2019, the Company has issued short-term debt instruments of RMB3 billion, bearing interest at 3.00%.

On 23 May 2019, the Company's subsidiary Pioneer Reward Limited has publicly issued 3-year United States dollar denominated bond which were unconditionally and irrevocably guaranteed by the Company, with a nominal amount of USD500 million and bearing interest at 3.375%.

On 27 May 2019, the Company has non-publicly issued a 3-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.94% to qualified investors.

(b) Non-public issuance of A shares

According to the sixth meeting of the fourth Board of Directors on 26 May 2017, the fourteenth meeting of the fourth Board of Directors on 21 May 2018, the decision of 2016 general meeting of the shareholders on 21 June 2017, the decision of 2017 general meeting of the shareholders on 13 June 2018 and the "Approval in Relation to the Non-Public Issuance of Shares by Huatai Securities Co., Ltd." (Zheng Jian Xu Ke [2018] No.315) received from the CSRC on 19 March 2018, the Company was approved to non-publicly issue no more than 1,088,731,200 new A shares. As at 31 July 2018, the amount of non-public issuance of the Company is RMB14,207,942 thousand, consisting of share capital of RMB1,088,731 thousand and capital surplus of RMB13,119,211 thousand. After deducting the issue cost of RMB74,736 thousand, the net amount of RMB13,044,475 thousand is accounted in reserves. The total paid up share capital of the Company after the change is RMB8,251,500 thousand, accounting for 100% of the registered capital after the change.

(c) Change in the proportion of ownership interest of subsidiaries

On 23 March 2018, China Nuclear Energy Industry Corporation transferred its 0.2% shares in Huatai United Securities Co., Ltd. to the Company. As at the report issuance date, the Company's proportion of ownership interest in Huatai United Securities Co., Ltd. has changed from 99.72% to 99.92%.

On 5 July 2018, Xizang Fumao Investment Management Limited Company transferred its 30% shares in Huatai Capital Management (Hong Kong) Limited to Huatai Futures Co., Ltd. As at the

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Events after the reporting date (continued)

(c) *Change in the proportion of ownership interest of subsidiaries (continued)*

report issuance date, the ownership interest proportion of Huatai Futures Co., Ltd. in Huatai Capital Management (Hong Kong) Limited has changed from 70% to 100%.

(d) *Profit distribution plan after accounting period*

Pursuant to the resolution of the general meeting of shareholders dated 22 October 2018, it was approved that the Company to distribute cash dividends of RMB3.00 (tax inclusive) per 10 shares to the existing holders of A Shares and H Shares, with total cash dividends amounting to RMB2,475,450 thousand.

(e) *Divestment from associate*

On 25 October 2018, the Group reduced 42.33% of equity investment in Huatai Ruilian. As at the report issuance date, the Group has no proportion of ownership interest in Huatai Ruilian.

Independent Auditor's Report

To the Board of Directors
Huatai Securities Co., Ltd.

Opinion

We have audited the consolidated financial statements of Huatai Securities Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position of the Group as at 31 December 2018, the consolidated income statements, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the years then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has 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. 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 scepticism 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 management.
- Conclude on the appropriateness of management's 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.

KPMG Huazhen LLP

Certified Public Accountants

8/F, KPMG Tower, Oriental Plaza,

1 East Chang'an Avenue

Beijing, China

11 June 2019

Consolidated income statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2018	2017 (Note)
Revenue			
Fee and commission income	4	10,819,910	12,926,354
Interest income	5	9,482,368	9,348,923
Net investment gains	6	3,374,651	7,302,250
Total revenue		23,676,929	29,577,527
Other income and gains	7	829,805	1,745,845
Total revenue and other income		24,506,734	31,323,372
Fee and commission expenses	8	(2,757,773)	(4,244,196)
Interest expenses	9	(6,466,970)	(5,749,099)
Staff costs	10	(5,372,341)	(7,030,196)
Depreciation and amortisation expenses	11	(625,897)	(566,306)
Tax and surcharges		(139,711)	(152,408)
Other operating expenses	12	(2,791,986)	(2,277,471)
Net impairment loss on financial assets	13	(862,694)	(259,030)
Total expenses		(19,017,372)	(20,278,706)
Operating profit		5,489,362	11,044,666
Share of profit of associates and joint ventures		959,309	539,978
Profit before income tax		6,448,671	11,584,644
Income tax expense	14	(1,287,784)	(2,176,788)
Profit for the year		5,160,887	9,407,856
Attributable to:			
Shareholders of the Company		5,032,738	9,276,520
Non-controlling interests		128,149	131,336
		5,160,887	9,407,856
Basic and diluted earnings per share (in Renminbi per share)	16	0.66	1.30

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(3).

The notes on pages F-134 to F-253 form part of these financial statements.

Consolidated statements of profit or loss and other comprehensive income
For the year ended 31 December 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2018	2017 (Note)
Profit for the year		<u>5,160,887</u>	<u>9,407,856</u>
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss:			
Equity investment at fair value through other comprehensive income			
—Net change in fair value		(1,311,689)	—
Income tax impact		327,923	—
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
—Net change in fair value		—	1,756,408
—Reclassified to profit or loss		—	(4,861,492)
Net gain from debt investment at fair value through other comprehensive income		22,043	—
Share of other comprehensive income of associates and joint ventures		72,640	34,436
Exchange differences on translation of financial statements in foreign currencies		339,244	(449,668)
Income tax impact		—	802,936
Total other comprehensive income for the year, net of tax	15	<u>(549,839)</u>	<u>(2,717,380)</u>
Total comprehensive income for the year		<u>4,611,048</u>	<u>6,690,476</u>
Attributable to:			
Shareholders of the Company		4,479,437	6,577,001
Non-controlling interests		131,611	113,475
Total		<u>4,611,048</u>	<u>6,690,476</u>

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(3).

The notes on pages F-134 to F-253 form part of these financial statements.

Consolidated statements of financial position

As at 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2018	2017 (Note)
Non-current assets			
Property and equipment	17	3,548,153	3,737,471
Investment properties	18	586,334	844,705
Goodwill	19	2,099,412	1,971,722
Other intangible assets	20	5,462,012	5,137,749
Interest in associates	22	12,527,828	8,895,908
Interest in joint ventures	23	649,833	—
Debt investment at amortised cost	24	13,854,878	—
Financial assets at fair value through other comprehensive income	25	10,098,382	—
Available-for-sale financial assets	26	—	29,766,929
Financial assets held under resale agreements	27	2,812,194	8,424,304
Financial assets at fair value through profit or loss	28	5,155,176	1,796,667
Refundable deposits	29	7,836,506	7,302,285
Deferred tax assets	30	225,135	472,556
Other non-current assets	31	259,751	81,047
Total non-current assets		<u>65,115,594</u>	<u>68,431,343</u>
Current assets			
Accounts receivable	32	3,090,165	1,980,337
Other receivables and prepayments	33	1,555,090	6,259,561
Margin accounts receivable	34	46,188,885	59,991,454
Debt investment at amortised cost	24	2,419,286	—
Available-for-sale financial assets	26	—	14,816,239
Financial assets held under resale agreements	27	40,744,371	53,381,011
Financial assets at fair value through profit or loss	28	117,089,156	82,753,755
Financial assets at fair value through other comprehensive income	25	358,361	—
Derivative financial assets	35	1,933,958	391,714
Clearing settlement funds	36	3,023,370	1,147,448
Cash held on behalf of brokerage clients	37	58,947,013	65,303,548
Cash and bank balances	38	28,200,625	27,026,130
Total current assets		<u>303,550,280</u>	<u>313,051,197</u>
Total assets		<u>368,665,874</u>	<u>381,482,540</u>

The notes on pages F-134 to F-253 form part of these financial statements.

Consolidated statements of financial position

As at 31 December 2018 (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	2018	2017
			(Note)
Current liabilities			
Short-term bank loans	40	3,015,791	—
Short-term debt instruments issued	41	21,124,000	26,656,010
Placements from other financial institutions	42	5,813,487	7,029,998
Accounts payable to brokerage clients	43	59,492,176	67,335,545
Employee benefits payable	44	2,869,042	2,668,777
Other payables and accruals	45	53,793,086	62,615,235
Contract liabilities	46	7,442	—
Current tax liabilities		284,436	433,551
Financial assets sold under repurchase agreements	47	40,095,054	23,921,537
Financial liabilities at fair value through profit or loss	48	2,874,584	12,035,660
Derivative financial liabilities	35	776,102	1,642,283
Long-term bonds due within one year	49	24,844,616	21,597,480
Long-term bank loans due within one year	51	15,820	—
Total current liabilities		<u>215,005,636</u>	<u>225,936,076</u>
Net current assets		<u>88,544,644</u>	<u>87,115,121</u>
Total assets less current liabilities		<u>153,660,238</u>	<u>155,546,464</u>
Non-current liabilities			
Long-term bonds	50	38,046,114	55,600,796
Long-term bank loans	52	1,682,949	—
Non-current employee benefits payable	44	5,045,990	6,078,642
Deferred tax liabilities	30	1,810,176	1,931,446
Financial assets sold under repurchase agreements	47	—	1,000,000
Financial liabilities at fair value through profit or loss	48	2,325,405	2,345,668
Total non-current liabilities		<u>48,910,634</u>	<u>66,956,552</u>
Net assets		<u>104,749,604</u>	<u>88,589,912</u>
Equity			
Share capital	53	8,251,500	7,162,769
Reserves	53	75,725,973	61,195,954
Retained profits	53	19,416,104	18,977,215
Total equity attributable to shareholders of the Company		103,393,577	87,335,938
Non-controlling interests		1,356,027	1,253,974
Total equity		<u>104,749,604</u>	<u>88,589,912</u>

Approved and authorised for issue by the board of directors on 11 June 2019.

Zhou Yi

Chairman of the Board,
Executive director and President

Chen Chuanming

Director

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(3).

The notes on pages F-134 to F-253 form part of these financial statements.

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

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Share capital (Note 53)	Capital reserve (Note 53)	Surplus reserve (Note 53)	General reserve (Note 53)	Fair value reserve (Note 53)	Translation reserve (Note 53)	Retained profits (Note 53)			
As at 31 December 2017	7,162,769	45,820,627	3,919,488	10,008,183	1,525,650	(77,994)	18,977,215	87,335,938	1,253,974	88,589,912
Impact on initial application of IFRS 9	—	—	34,366	60,799	(715,018)	—	549,914	(69,939)	(151)	(70,090)
As at 1 January 2018	7,162,769	45,820,627	3,953,854	10,068,982	810,632	(77,994)	19,527,129	87,265,999	1,253,823	88,519,822
Changes in equity for 2018										
Profit for the year	—	—	—	—	—	—	5,032,738	5,032,738	128,149	5,160,887
Other comprehensive income	—	—	—	—	(889,083)	335,782	—	(553,301)	3,462	(549,839)
Total comprehensive income	—	—	—	—	(889,083)	335,782	5,032,738	4,479,437	131,611	4,611,048
Issuance of A shares	1,088,731	13,044,475	—	—	—	—	—	14,133,206	—	14,133,206
Acquisition of non-controlling interests without a change in control	—	(5,242)	—	—	—	—	(4,373)	(9,615)	(8,696)	(18,311)
Recognition on disposal of subsidiaries	—	—	—	—	—	—	—	—	(7,996)	(7,996)
Appropriation to surplus reserve	—	—	535,977	—	—	—	(535,977)	—	—	—
Appropriation to general reserve	—	—	—	2,127,963	—	—	(2,127,963)	—	—	—
Dividends declared for the year	—	—	—	—	—	—	(2,475,450)	(2,475,450)	(12,715)	(2,488,165)
As at 31 December 2018	8,251,500	58,859,860	4,489,831	12,196,945	(78,451)	257,788	19,416,104	103,393,577	1,356,027	104,749,604
As at 1 January 2017	7,162,769	45,837,763	3,071,195	7,943,619	3,775,704	371,471	16,194,936	84,357,457	1,302,740	85,660,197
Changes in equity for 2017										
Profit for the year	—	—	—	—	—	—	9,276,520	9,276,520	131,336	9,407,856
Other comprehensive income	—	—	—	—	(2,250,054)	(449,465)	—	(2,699,519)	(17,861)	(2,717,380)
Total comprehensive income	—	—	—	—	(2,250,054)	(449,465)	9,276,520	6,577,001	113,475	6,690,476
Capital injection by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	265,233	265,233
Recognition on disposal of subsidiaries	—	(17,136)	—	—	—	—	—	(17,136)	(425,854)	(442,990)
Appropriation to surplus reserve	—	—	848,293	—	—	—	(848,293)	—	—	—
Appropriation to general reserve	—	—	—	2,064,564	—	—	(2,064,564)	—	—	—
Dividends declared for the year	—	—	—	—	—	—	(3,581,384)	(3,581,384)	(1,620)	(3,583,004)
As at 31 December 2017 (Note)	7,162,769	45,820,627	3,919,488	10,008,183	1,525,650	(77,994)	18,977,215	87,335,938	1,253,974	88,589,912

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(3).

The notes on pages F-134 to F-253 form part of these financial statements.

Consolidated cash flow statements

For the year ended 31 December 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	2018	2017
			(Note)
Cash flows from operating activities:			
Profit before income tax		6,448,671	11,584,644
Adjustments for:			
Interest expenses		6,466,970	5,749,099
Share of profit of associates and joint ventures		(959,309)	(539,978)
Depreciation and amortisation expenses		625,897	566,306
Provision for impairment losses		867,989	259,030
Net gains on disposal of property and equipment and intangible assets		(36)	(6,949)
Foreign exchange (gains) / losses		(30,505)	38,040
Net realised gains from available-for-sale financial assets and other investments		—	(4,219,420)
Dividend income and interest income from available-for-sale financial assets and held-to-maturity investments		—	(645,207)
Dividend income and interest income from financial assets through other comprehensive income and debt investment at amortised cost		(1,302,327)	—
Unrealised fair value changes in financial instruments through profit or loss		755,282	(137,296)
Unrealised fair value changes in derivatives		(2,518,204)	467,963
Operating cash flows before movements in working capital		10,354,428	13,116,232

The notes on pages F-134 to F-253 form part of these financial statements.

Consolidated cash flow statements

For the year ended 31 December 2018 (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	2018	2017
			(Note)
Cash flows from operating activities (continued):			
(Increase) / decrease in refundable deposits		(533,396)	856,343
Decrease / (increase) in margin accounts receivable		16,784,013	(3,467,433)
Increase in accounts receivables, other receivables and prepayments . . .		(5,636,305)	(2,264,006)
Decrease / (increase) in financial assets held under resale agreements . .		20,704,167	(9,983,253)
Increase in financial instruments at fair value through profit or loss . . .		(18,351,440)	(7,410,200)
Decrease in restricted bank deposits		4,479,681	12,486,730
Decrease in cash held on behalf of brokerage clients		6,466,996	29,265,386
Decrease in accounts payable to brokerage clients		(7,853,338)	(25,393,292)
Decrease in other payables and accruals		(6,999,766)	(17,366,962)
(Decrease) / increase in employee benefits payable and other non- current liabilities		(832,294)	1,241,977
Increase in financial assets sold under repurchase agreements		15,108,826	5,458,162
(Decrease) / increase in placements from other financial institutions . . .		(1,311,591)	379,998
Cash generated from / (used in) operations		32,379,981	(3,080,318)
Income taxes paid		(1,347,018)	(1,802,203)
Interest paid		(2,575,181)	(1,844,354)
Net cash generated from / (used in) operating activities		28,457,782	(6,726,875)

The notes on pages F-134 to F-253 form part of these financial statements.

Consolidated cash flow statements

For the year ended 31 December 2018 (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2018	2017
			(Note)
Cash flows from investing activities:			
Proceeds on disposal of property and equipment		4,308	41,401
Dividends received from associates		417,472	229,819
Dividends and interest received from available-for-sale financial assets and other investments		—	645,207
Dividend income and interest income from financial assets through other comprehensive income and debt investment at amortised cost		1,302,327	—
Proceeds from / (payment of) other limited partners' interest in private funds		165,624	(285,866)
Proceeds on disposal of available-for-sale financial assets		—	531,134
Cash paid for disposal of subsidiaries, net of cash and bank balances decreased		(2,687)	(840,724)
Purchases of property and equipment, investment properties, other intangible assets and other non-current assets		(954,649)	(377,634)
Purchases of associates, joint ventures and other investments		(166,580)	(11,425)
Disinvestments of associates and joint ventures		161,924	—
Purchases of available-for-sale financial assets		—	(12,199,858)
Purchase of debt investment at amortised cost		(10,831,183)	—
Purchase of financial assets through other comprehensive income		(584,766)	—
Net cash used in investing activities		(10,488,210)	(12,267,946)

The notes on pages F-134 to F-253 form part of these financial statements.

Consolidated cash flow statements

For the year ended 31 December 2018 (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

		Year ended 31 December	
	Note	2018	2017
			(Note)
Cash flows from financing activities:			
Capital injection from non-controlling shareholders		—	265,233
Proceeds from issuance of short-term debt instruments		46,200,314	42,258,270
Proceeds from issuance of long-term bonds		8,974,000	31,000,000
Proceeds from bank loans		4,698,718	—
Repayment of bank loans		—	(471,065)
Repayment of debt securities issued		(75,557,800)	(46,723,260)
Short-term bank loans interest paid		(32,626)	—
Long-term bank loans interest paid		(12,705)	—
Short-term debt instruments interest paid		(902,944)	(220,186)
Long-term bonds interest paid		(3,720,570)	(3,431,905)
Dividends paid		(2,488,165)	(3,583,004)
Net proceeds from issuance of A shares		14,207,942	—
Payment for other financing activities		(74,736)	(4,316)
Net cash (used in) / generated from financing activities	39(b)	(8,708,572)	19,089,767
Net increase in cash and cash equivalents		9,261,000	94,946
Cash and cash equivalents at the beginning of the year		31,378,585	31,651,614
Effect of foreign exchange rate changes		152,725	(367,975)
Cash and cash equivalents at the end of the year	39(a)	40,792,310	31,378,585

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(3).

The notes on pages F-134 to F-253 form part of these financial statements.

Notes to the Financial Statements

(Expressed in thousands of Renminbi, unless otherwise stated)

1 General information

Huatai Securities Co., Ltd. (the “Company”), formerly known as Jiangsu Securities Company, was approved by the People’s Bank of China (“PBOC”), and registered with the Administration for Industry and Commerce of Jiangsu Province on 9 April 1991, with a registered capital of RMB10 million. The Company was renamed as Huatai Securities Limited Liability Company on 21 December 1999 and then renamed as Huatai Securities Co., Ltd. on 7 December 2007 as a result of the conversion into a joint stock limited liability company.

The Company publicly issued RMB784,561 thousand ordinary shares (A shares) in February 2010, and was listed on the Shanghai Stock Exchange on 26 February 2010.

In June 2015, the Company issued RMB1,562,769 thousand H shares, which were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

In July 2018, the Company issued RMB1,088,731 thousand A share through private placement.

As at 31 December 2018, the Company’s registered capital was RMB8,251,500 thousand and the Company has a total of 8,251,500 thousand issued shares of RMB1 each.

The Company and its subsidiaries (the “Group”) principally engaged in securities brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment advisory, asset management, margin financing and securities lending, agency sale of financial products, intermediary introduction business for the futures companies, agency sale and custody of securities investment fund, mutual fund management, brokerage of spot contracts for precious metal such as gold, proprietary trading of spot contract for gold, direct investment business, alternative investment business, stock option market making, futures brokerage business and other business activities as approved by the China Securities Regulatory Commission (“CSRC”).

2 Significant accounting policies

(1) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards and related interpretations promulgated by the International Accounting Standards Board (the “IASB”). A summary of the significant accounting policies adopted by the Group are set out below.

The IASB has issued a number of new and revised IFRSs that are first effective for the current accounting period of the Group. Note 2(3) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended 31 December 2018 are set out in Note 62.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(2) Basis of preparation of the financial statements

The financial statements has been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: financial derivatives, non-derivative financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income. The methods used to measure fair value are discussed further in Note 2(8).

The financial statements is presented in Renminbi (“RMB”), which is the functional currency of the Group. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated. The Group translates the financial statements of subsidiaries from their respective functional currencies into the Group’s functional currency if the subsidiaries’ functional currencies are not the same as that of the Group.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(29).

(3) Changes in accounting policies

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- IFRS 9, *Financial Instruments*
- IFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

Details of the changes in accounting policies are discussed in Note 2(3)(b) for IFRS 9 and Note 2(3)(c) for IFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9 and / or IFRS 15.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(3) Changes in accounting policies (continued)

(a) Overview (continued)

	At 31 December 2017	Impact on initial application of IFRS 9 (Note 2(3)(b))	Impact on initial application of IFRS 15 (Note 2(3)(c))	At 1 January 2018
Financial assets at fair value through profit or loss	1,796,667	6,593,664	—	8,390,331
Financial assets held under resale agreements	8,424,304	(471)	—	8,423,833
Available-for-sale financial assets	29,766,929	(29,766,929)	—	—
Financial assets at fair value through other comprehensive income	—	11,161,621	—	11,161,621
Debt investment at amortised cost	—	3,491,708	—	3,491,708
Deferred tax assets	472,556	357	—	472,913
Total non-current assets	68,431,343	(8,520,050)	—	59,911,293
Cash and bank balances	27,026,130	(3,496)	—	27,022,634
Financial assets at fair value through profit or loss	82,753,755	21,628,823	—	104,382,578
Financial assets held under resale agreements	53,381,011	(6,354)	—	53,374,657
Available-for-sale financial assets	14,816,239	(14,816,239)	—	—
Debt investment at amortised cost	—	1,649,895	—	1,649,895
Total current assets	313,051,197	8,452,629	—	321,503,826
Total assets	381,482,540	(67,421)	—	381,415,119
Net current assets	87,115,121	8,452,629	—	95,567,750
Total assets less current liabilities	155,546,464	(67,421)	—	155,479,043
Deferred tax liabilities	(1,931,446)	(2,669)	—	(1,934,115)
Total non-current liabilities	(66,956,552)	(2,669)	—	(66,959,221)
Net assets	88,589,912	(70,090)	—	88,519,822

	At 31 December 2017	Impact on initial application of IFRS 9 (Note 2 (3)(b))	Impact on initial application of IFRS 15 (Note 2 (3)(c))	At 1 January 2018
Reserves	61,195,954	(619,853)	—	60,576,101
Retained profits	18,977,215	549,914	—	19,527,129
Total equity attributable to shareholders of the Company	87,335,938	(69,939)	—	87,265,999
Non-controlling interests	1,253,974	(151)	—	1,253,823
Total equity	88,589,912	(70,090)	—	88,519,822

(b) IFRS 9, Financial Instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and hedge accounting.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(3) Changes in accounting policies (continued)

(b) IFRS 9, Financial Instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (continued)

effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained profits and reserves, and the related tax impact at 1 January 2018.

	<u>Increase / (decrease)</u>
Retained profits	
Transferred in from fair value reserve (recycling) relating to financial assets now measured at fair value through profit or loss	960,795
Recognition of additional expected credit losses on financial assets at amortised cost . . .	(10,269)
Remeasurement of financial assets at fair value through profit or loss	(67,982)
Transferred out from impairment on available-for-sale financial assets to fair value reserve of financial assets at fair value through other comprehensive income (non-recycling)	3,683
Related tax effect	(241,148)
Appropriation to surplus reserve	(34,366)
Appropriation to general reserve	(60,799)
Impact at 1 January 2018	<u>549,914</u>
Fair value reserve	
Transferred out to retained profits relating to financial assets now measured at fair value through profit or loss	(960,795)
Reversal of fair value reserve due to the classification from available-for-sale assets to financial assets at amortised cost	10,676
Transferred in from impairment on available-for-sale financial assets to fair value reserve of financial assets at fair value through other comprehensive income (non-recycling)	(3,683)
Related tax effect	238,784
Impact at 1 January 2018	<u>(715,018)</u>
	<u>Increase / (decrease)</u>
Non-controlling interests	
Recognition of expected credit losses on financial assets at amortised cost	(203)
Related tax effect	52
Impact at 1 January 2018	<u>(151)</u>

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification and measurement

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification of financial assets under IFRS 9 is based on the business model

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(3) Changes in accounting policies (continued)

(b) IFRS 9, Financial Instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (continued)

(i) Classification and measurement (continued)

under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

The following table and the accompanying notes below explain the original measurement categories for the class (impacted by IFRS 9) of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	At 31 December 2017	Reclassification	Remeasurement	At 1 January 2018
Financial assets carried at amortised cost				
Cash and bank balances	27,026,130	—	(3,496)	27,022,634
Financial assets held under resale agreements	61,805,315	—	(6,825)	61,798,490
Debt investment at amortised cost	—	5,141,754	(151)	5,141,603
	<u>88,831,445</u>	<u>5,141,754</u>	<u>(10,472)</u>	<u>93,962,727</u>
Financial assets at fair value through other comprehensive income	<u>—</u>	<u>11,161,621</u>	<u>—</u>	<u>11,161,621</u>
Financial assets at fair value through profit or loss	<u>84,550,422</u>	<u>28,290,469</u>	<u>(67,982)</u>	<u>112,772,909</u>
Financial assets classified as available- for-sale under IAS 39	<u>44,583,168</u>	<u>(44,583,168)</u>	<u>—</u>	<u>—</u>

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

(ii) Credit losses

IFRS 9 replaces the “incurred loss” model in IAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in IAS 39.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(3) Changes in accounting policies (continued)

(b) IFRS 9, Financial Instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (continued)

(ii) Credit losses (continued)

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, accounts receivable, other receivables and prepayments, financial assets held under resale agreements, and margin account receivable);
- debt securities measured at FVOCI (recycling).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(8).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	<u>Increase / (decrease)</u>
Loss allowance at 31 December 2017 under IAS 39	666,116
Additional expected credit loss recognised at 1 January 2018	10,472
Reverse of loss allowance due to the reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	(59,361)
Reverse of loss allowance due to the reclassification from available-for-sale financial assets to financial assets at fair value through other comprehensive income (non-recycling)	(3,683)
Loss allowance at 1 January 2018 under IFRS 9	<u>613,544</u>

(iii) Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. As the Group does not apply hedge accounting, the Group concluded that the hedge accounting requirements of IFRS 9 has no material impact on the Group's financial statements.

(iv) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(3) Changes in accounting policies (continued)

(b) *IFRS 9, Financial Instruments, including the amendments to IFRS 9, Prepayment features with negative compensation (continued)*

(iv) Transition (continued)

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):
 - the determination of the business model within which a financial asset is held; and
 - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) *IFRS 15, Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5 steps approach to revenue recognition.

The Group has been impacted by IFRS 15 in relation to the gross up or net presentation of revenue. Except for the impact said above, the application of IFRS 15 does not result in a significant impact on the Group's financial statements as at 1 January 2018.

(4) *Basis of consolidation*

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(4) Basis of consolidation (continued)

(i) Subsidiaries and non-controlling interests (continued)

ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability.

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(8)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(4) (ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(15)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Associates and joint ventures

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

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(4) Basis of consolidation (continued)

(ii) Associates and joint ventures (continued)

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(5) and 2(15)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(8)).

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

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Goodwill

Goodwill represents the excess of:

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(15)).

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

(6) Foreign currency

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

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

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of equity securities investment designated as at FVOCI (2017: available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss)), which are recognised as other comprehensive income in capital reserve.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of reporting period. The equity items, excluding "retained profits", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(6) Foreign currency (continued)

the transaction dates. The resulting translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

(8) Financial instruments

The following accounting policy related to financial instruments is applicable from 1 January 2018. As to financial instruments related policy applicable before 1 January 2018, please refer to the Group's financial statements for the year ended 31 December 2017.

(i) Recognition and initial measurement

Financial instruments are recognised / derecognised on the date the Group commits to purchase/sell the investment. Financial instruments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 2(8)(iv). Financial instruments are subsequently accounted for as follows, depending on their classification.

(ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets — Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets — Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets — Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities — Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial liabilities — Classification, subsequent measurement and gains and losses (continued)

it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. The fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) impairment

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

Debt investment at fair value, FVTPL and equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(iii) impairment (continued)

Measurement of ECLs (continued)

provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Significant increases in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and;
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(iii) impairment (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iv) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(iv) Fair value measurement (continued)

that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the reporting period. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(v) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Financial instruments (continued)

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vii) Equity instruments

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Group. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

(viii) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(ix) Asset-backed securities

The Group securitises the financial assets, which generally results in the sale of these financial assets to structured entities. The structured entities in turn issue asset-backed securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, or other residual interests. For asset securitisation business, the Group has applied the accounting policies set out in Note 2(4) when assessing consolidation of the structured entities and applied the accounting policies described in Note 2(8)(v) when assessing whether or not to derecognise the transferred financial assets.

(9) Margin financing and securities lending

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

The classification, subsequent measurement and impairment of margin financing receivables is based on policies in Note 2(8). Securities lent are not derecognised when the risk and rewards are not transferred, and interest income from margin financing receivables and securities lent is recognised using the effective interest rate method.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(9) Margin financing and securities lending (continued)

The collateral is not recognised on the statement of financial position, the transfer of the collateral from counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

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

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

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

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(11) Investments in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(4).

In the Company's statements of financial position, investments in subsidiaries are accounted for using the cost method. The investment is stated at cost less impairment loss (Note 2(15)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

(12) Property and equipment and construction in progress

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(12) Property and equipment and construction in progress (continued)

(i) Recognition and measurement (continued)

- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***2 Significant accounting policies (continued)****(12) Property and equipment and construction in progress (continued)****(iii) Depreciation (continued)**

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

<u>Types of assets</u>	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Depreciation rates</u>
Buildings	30-50 years	3%	1.94%-3.23%
Motor vehicles	3-8 years	3%	12.13%-32.33%
Electronic equipment	5 years	3%	19.40%
Furniture and fixtures	2-5 years	3%	19.40%-48.50%

No depreciation is provided in respect of construction in progress. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(13) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for using the cost model and stated in the financial statements at cost less accumulated depreciation, and impairment losses (see Note 2(15)). The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale.

	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Depreciation rates</u>
Investment property	30-35 years	3%	2.77%-3.23%

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

(14) Other intangible assets

Intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment loss (see Note 2(15)). For an intangible asset with finite useful life, its cost less impairment loss is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

<u>Types of assets</u>	<u>Estimated useful lives</u>
Existing relationships with broker-dealers	Indefinite
Land-use right	50 years
Trade names	20 years
Software and others	2-20 years

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(14) Other intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

(15) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each reporting date to determine whether there is any indication of impairment:

- property and equipment
- investment property
- other intangible assets
- equity investment in subsidiaries, associates and joint ventures
- goodwill
- leasehold improvements and long-term deferred expenses

If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(16) Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(8)(iii) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(17) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on corporate bonds, which have a credit rating of at least AA from rating agency, that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(17) Employee benefits (continued)

(iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(18) Share-based payments

(i) Classification of share-based payments

Share-based payment transactions in the Group are cash-settled share-based payments.

(ii) Accounting treatment of cash-settled share-based payments

Where the Group receives services from employees by incurring a liability to deliver cash or other assets for amounts that are determined based on the price of shares or other equity instruments, the service received from employees is measured at the fair value of the liability incurred. If a cash-settled share-based payment do not vest until the completion of services for a period, or until the achievement of a specified performance condition, the Group recognises costs or expenses as services are received, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting. Until the liability is settled, the Group will remeasure the fair value of the liability at each balance sheet date and at the date of settlement, with changes recognised in profit or loss for the current period.

When the Group receives services and has the obligation to settle the transaction, but the relevant equity instruments are issued by the Company's ultimate parent or its subsidiaries outside the Group, the Group classifies the transaction as cash-settled.

(19) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(19) Income tax (continued)

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(20) Operating leases

(i) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

(ii) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 2(12)(iii). Impairment losses are recognised in accordance with the accounting policies described in Note 2(15). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income in the accounting period in which they are earned.

(21) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(22) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

(23) Revenue recognition

The following accounting policy related to revenue recognition is applicable from 1 January 2018. As to revenue recognition related policy applicable before 1 January 2018, please refer to the Group's financial statements for the year ended 31 December 2017.

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(23) Revenue recognition (continued)

Revenue is recognised when control over a service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a variable consideration, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised services to a customer and includes in the transaction price some or all of the variable consideration estimated, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Commission income from brokerage business

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.

(ii) Underwriting and sponsor fees

Underwriting fee is recognised when the Group has fulfilled its obligations under the underwriting contract.

Depending on contract terms, sponsor fees are recognised progressively over time using a method that depicts the Group's performance, or at a point in time when the service is completed.

(iii) Advisory fees

Depending on the nature of the advisory services and the contract terms, advisory fees are recognised progressively over time using a method that depicts the Group's performance, or at a point in time when the advisory service is completed.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(23) Revenue recognition (continued)

(iv) Asset management fees

Asset management fees include periodic management fees calculated based on assets under management and performance-based fees. The fees are recognised progressively over time using a method that depicts the Group's performance, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method. For debt investment at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(vi) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vii) Other income

Other income is recognised on an accrual basis.

(24) Expenses recognition

(i) Commission expenses

Commission expenses relate mainly to transactions, which are recognised as expenses when the services are received.

(ii) Interest expenses

Interest expenses are recognised based on the principal outstanding and at the effective interest rate applicable.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(24) Expenses recognition (continued)

(iii) Lease payments (continued)

each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(iv) Other expenses

Other expenses are recognised on an accrual basis.

(25) Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the reporting period, are not recognised as a liability at the end of the reporting period but disclosed in the notes to the financial statements separately.

(26) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

(27) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

- (1) has control or joint control over the Group;**
- (2) has significant influence over the Group; or**
- (3) is a member of the key management personnel of the Group or the Group's parent.**

(ii) An entity is related to the Group if any of the following conditions applies:

- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).**
- (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).**
- (3) Both entities are joint ventures of the same third party.**
- (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.**

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(27) Related parties (continued)

- (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (6) The entity is controlled or jointly controlled by a person identified in (i).
- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(28) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, financial performance and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each product and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

(29) Significant accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Fair value of financial instruments

As indicated in Note 2(8)(i), financial instruments at fair value through profit or loss, available-for-sale investments and financial assets at fair value through other comprehensive income are measured at fair value at the end of the year and it is usually possible to determine their fair values within a reasonable range of estimates.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(29) Significant accounting estimates and judgements (continued)

(i) Fair value of financial instruments (continued)

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2(8)(iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(ii) Measurement of ECL

The following significant judgements are required in applying the accounting requirements for measuring the ECL.

Significant increase of credit risk

As explained in Note 2(8)(iii), ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(29) Significant accounting estimates and judgements (continued)

(ii) Measurement of ECL (continued)

Forward-looking information

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss given default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Loss ratio (LR)

LR represents the Group's expectation of the likelihood and extent of loss on exposure based on the relevant loan to collateral ratio. The Group uses historical loss rates based on publicly available information and assesses their appropriateness.

(iii) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(iv) Depreciation and amortisation

Property and equipment, investment property, intangible assets, leasehold improvements and long-term deferred expenses are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(29) Significant accounting estimates and judgements (continued)

(iv) Depreciation and amortisation (continued)

determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(vi) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset management schemes where the Group involves as the manager or investment consultant, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the Group is a principal. The asset management scheme shall be consolidated if the Group acts in the role of principal.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

3 Taxation

The Group's main applicable taxes and tax rates are as follows:

<u>Tax type</u>	<u>Tax basis</u>	<u>Tax rate</u>
Value-added tax (VAT)	Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period.	3%-17% ⁽ⁱ⁾
City maintenance and construction tax	Based on value added tax paid	1%-7%
Education surcharge	Based on value added tax paid	2%-3%
Income tax	Based on taxable profits	25% ⁽ⁱⁱ⁾

- (i) According to Notice on Adjusting VAT rate (Cai Shui [2018] No.32), since 1 May 2018, the VAT rates applicable to 17% and 11% have been adjusted to 16% and 10% respectively. According to Notice on Clarifying VAT Policies for Financial Services, Real Estate Development, and Educational Ancillary Services (Cai Shui [2016] No.140), Supplementary Notice on Issues concerning VAT Policies for Asset Management Products (Cai Shui [2017] No.2) and Notice on Issues Relating to VAT on Asset Management Products (Cai Shui [2017] No.56) issued by the Ministry of Finance and State Administration of Taxation, effective from 1 January 2018, the simplified VAT method will temporarily be applied to the operation of asset management products with a VAT rate of 3%. The manager of asset management products will be the taxpayer.
- (ii) The income tax rate applicable to the Company and its domestic subsidiaries is 25% (2017:25%). The income tax rate applicable to subsidiaries in Hong Kong is 16.5% (2017:16.5%). Pursuant to the Tax Cuts and Jobs Act of 2017 signed into law on 22 December 2017, the corporate income tax rate applicable to subsidiaries in the United States is reduced from a maximum marginal rate of 35% to a flat 21% rate, effective from 1 January 2018. Taxes of other overseas subsidiaries are charged at the relevant local rates.

4 Fee and commission income

	<u>Year ended 31 December</u>	
	<u>2018</u>	<u>2017</u>
Income from securities brokerage and advisory business	4,573,577	5,834,535
Income from asset management business	3,418,081	4,210,180
Income from underwriting and sponsorship business	1,340,398	1,175,244
Income from financial advisory business	649,248	905,021
Income from futures brokerage business	770,433	727,529
Other commission income	68,173	73,845
Total	<u>10,819,910</u>	<u>12,926,354</u>

5 Interest income

	<u>Year ended 31 December</u>	
	<u>2018</u>	<u>2017</u>
Interest income from margin financing and securities lending	3,906,882	4,179,059
Interest income from financial institutions	2,397,023	2,820,669
Interest income from securities-backed lending	2,399,075	2,085,663
Interest income from other financial assets held under resale agreements	325,162	212,135
Interest income from debt instruments at amortised cost	448,034	—
Others	6,192	51,397
Total	<u>9,482,368</u>	<u>9,348,923</u>

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

6 Net investment gains

	Year ended 31 December	
	2018	2017
Dividend income and interest income from financial instruments at fair value through profit or loss	4,193,913	2,401,833
Dividend income and interest income from financial assets at fair value through other comprehensive income	854,293	—
Net realised gains from disposal of derivative financial instruments	378,340	497,798
Net realised losses from disposal of financial instruments at fair value through profit or loss	(3,849,837)	(120,405)
Net realised gains from disposal of available-for-sale financial assets	—	4,219,420
Dividend income and interest income from available-for-sale financial assets	—	644,888
Interest income from held-to-maturity investments	—	319
Unrealised fair value changes of derivative financial instruments	2,553,224	(478,899)
Unrealised fair value changes of financial instruments at fair value through profit or loss	(755,282)	137,296
Total	3,374,651	7,302,250

7 Other income and gains

	Year ended 31 December	
	2018	2017
Income from commodity sales	369,244	2,706
Government grants ⁽ⁱ⁾	181,962	67,671
Rental income	94,658	80,891
Foreign exchange gains / (losses)	30,505	(38,040)
Gains on previously held interest in subsidiaries and joint ventures upon loss of control or disposal ⁽ⁱⁱ⁾	4,870	725,306
Gains on disposal of property and equipment	36	8,379
Excess of interest in the fair value of investee's identifiable net assets over investment costs of associates ventures acquired ⁽ⁱⁱⁱ⁾	—	752,555
Others	148,530	146,377
Total	829,805	1,745,845

(i) The government grants were received unconditionally by the Company and its subsidiaries from the local government where they reside.

(ii) During 2018, gains on previously held interest in subsidiaries and joint ventures upon loss of control or disposal mainly attributable to the Group's disposal of Jiangsu Emerging Industry Investment Co., Ltd ("Jiangsu Emerging") (see Note 21(c)). In this connection, the Group recognised other income and gains, which was resulted from the Group's previously recognised equity in relation to Jiangsu Emerging.

During 2017, gains on previously held interest in subsidiaries and associates upon loss of control mainly attributable to the Group's loss of interest in Huatai Ruilian Fund Management Co., Ltd ("Huatai Ruilian"). In this connection, the Group recognised other income and gains, which was resulted from the Group's previously recognised equity in relation to Huatai Ruilian.

(iii) The Group has changed the accounting treatment of equity investment in Bank of Jiangsu Co., Ltd ("Bank of Jiangsu") from available-for-sale financial assets to interest in associates using the equity method in 2017. Other income and gains amounting to RMB752,555 thousand arose due to the excess of the Group's share of the net fair value of identifiable assets and liabilities of the associates over the investment cost at the date of accounting treatment change.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***8 Fee and commission expenses**

	Year ended 31 December	
	2018	2017
Expenses for securities brokerage and advisory business	1,399,505	1,838,785
Expenses for asset management business	793,904	1,904,344
Expenses for futures brokerage business	514,598	455,573
Expenses for underwriting and sponsorship business	40,896	41,754
Expenses for financial advisory business	91	—
Other commission expenses	8,779	3,740
Total	2,757,773	4,244,196

9 Interest expenses

	Year ended 31 December	
	2018	2017
Interest expenses on long-term bonds	3,251,607	3,407,715
Interest expenses on financial assets sold under repurchase agreements	1,277,343	861,801
Interest expenses on short-term debt instruments issued	807,490	521,294
Interest expenses on placements	549,506	302,847
Interest expenses of accounts payable to brokerage clients	276,027	301,309
Interest expenses on short-term bank loans	48,467	10,810
Interest expenses on long-term bank loans	12,705	—
Others	243,825	343,323
Total	6,466,970	5,749,099

10 Staff costs

	Note	Year ended 31 December	
		2018	2017
Salaries, bonuses and allowances		4,243,506	6,126,921
Contribution to pension schemes		540,800	455,225
Cash-settled share-based payment expenses	44(a)(i)	71,335	24,812
Other social welfare		516,700	423,238
Total		5,372,341	7,030,196

The domestic employees of the Group in the PRC participate in social plans, including pension, medical, housing, and other welfare benefits, organised and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labour and social welfare authorities. The contributions to the social security plans are expensed as incurred.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

11 Depreciation and amortisation expenses

	Year ended 31 December	
	2018	2017
Amortisation of other intangible assets	335,959	283,373
Depreciation of property and equipment	223,630	211,232
Amortisation of leasehold improvements and long-term deferred expenses	37,481	38,514
Depreciation of investment properties	28,827	33,187
Total	<u>625,897</u>	<u>566,306</u>

12 Other operating expenses

	Year ended 31 December	
	2018	2017
Cost of commodity sales	367,881	—
Rental expenses	356,904	301,391
Marketing, advertising and promotion expenses	155,822	166,972
Business travel expenses	153,195	152,645
Stock exchange fees	150,989	167,906
Consulting fees	146,028	112,929
Products distribution expenses	138,963	175,498
Postal and communication expenses	138,892	141,475
Business entertainment expenses	133,184	113,833
Loss on previously held interest in associate upon disposal ⁽ⁱ⁾	129,785	—
Securities investor protection funds	75,954	135,343
IT expenses	71,916	133,649
Utilities	50,597	49,898
Auditors' remuneration	9,893	14,598
Others	711,983	611,334
Total	<u>2,791,986</u>	<u>2,277,471</u>

(i) Loss on previously held interest in associate upon disposal mainly attributable to the Group's loss of interest in Huatai Ruilian. In this connection, the Group recognised other operating expense, which was resulted from the Group's previously recognised equity in relation to Huatai Ruilian.

13 Net impairment loss on financial assets

	Year ended 31 December	
	2018	2017
Reversal of impairment losses against cash and bank balances	(2,149)	—
(Reversal of)/ provision for impairment losses against margin accounts receivable	(21,864)	81,083
Provision for impairment losses against other receivables and prepayments	397,876	75,443
Provision for impairment losses against debt investment at amortised cost	5,915	—
Provision for impairment losses against available-for-sale financial assets	—	57,327
Provision for impairment losses against financial assets at fair value through other comprehensive income	449	—
Provision for impairment losses against financial assets held under resale agreements	473,922	34,616
Provision for impairment losses against accounts receivable	8,545	10,561
Total	<u>862,694</u>	<u>259,030</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

14 Income tax expense

(a) Taxation in the consolidated income statements represents:

	Year ended 31 December	
	2018	2017
Current income tax		
—Mainland China	758,174	1,815,410
—Hong Kong	455	5,637
—Overseas	95,129	58,576
	<u>853,758</u>	<u>1,879,623</u>
Adjustment in respect of prior years		
—Mainland China	8,065	(5,619)
—Hong Kong	—	—
—Overseas	—	—
	<u>8,065</u>	<u>(5,619)</u>
Deferred tax		
Origination and reversal of temporary differences	425,961	302,784
Total	<u>1,287,784</u>	<u>2,176,788</u>

(b) Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December	
	2018	2017
Profit before income tax	6,448,671	11,584,644
National tax calculated using the PRC statutory tax rate	1,612,167	2,896,161
Tax effect of non-deductible expenses	66,883	30,584
Tax effect of non-taxable income	(512,209)	(252,721)
Tax effect of unused tax losses not recognised	36,536	112,845
Recognition of previously unrecognised tax losses	(81,377)	—
Effect of different tax rates of the subsidiaries	23,087	9,479
Deferred tax re-pricing due to U.S. tax reform ⁽ⁱ⁾	—	(619,398)
Adjustment for prior years	8,065	(5,619)
Others	134,632	5,457
Actual income tax expense	<u>1,287,784</u>	<u>2,176,788</u>

- (i) The Tax Cuts and Jobs Act (TCJA) of 2017 was signed into law on 22 December 2017 in the United States. The federal corporate income tax rate is reduced from a maximum marginal rate of 35% to a flat 21% rate. As a result, deferred tax assets and liabilities were revalued using the enacted tax rate of 21% for the Group's subsidiaries in the United States, and the total tax effect on deferred tax balances was a tax benefit.

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

15 Other comprehensive income

	Year ended 31 December 2018		
	Before tax	Tax (expense) /benefit	Net of tax
Net gain from debt investments at FVOCI	22,043	—	22,043
Equity investments at FVOCI:			
—Net movement in fair value reserve (non-recycling)	(1,311,689)	327,923	(983,766)
Share of other comprehensive income of associates and joint ventures	72,640	—	72,640
Exchange differences on translation of financial statements in foreign currencies	339,244	—	339,244
Total	<u>(877,762)</u>	<u>327,923</u>	<u>(549,839)</u>

	Year ended 31 December 2017		
	Before tax	Tax (expense) /benefit	Net of tax
Available-for-sale financial assets			
—Net changes in fair value	1,756,408	(417,546)	1,338,862
—Reclassified to profit or loss	(4,861,492)	1,213,285	(3,648,207)
Share of other comprehensive income of associates and joint ventures	34,436	7,197	41,633
Exchange differences on translation of financial statements in foreign currencies	(449,668)	—	(449,668)
Total	<u>(3,520,316)</u>	<u>802,936</u>	<u>(2,717,380)</u>

16 Basic and diluted earnings per share

	Note	Year ended 31 December	
		2018	2017
Profit attributable to shareholders of the Company		<u>5,032,738</u>	<u>9,276,520</u>
Weighted average number of ordinary shares (in thousands)	16(a)	<u>7,619,141</u>	<u>7,162,769</u>
Basic and diluted earnings per share attributable to equity shareholders (in Renminbi per share)		<u>0.66</u>	<u>1.30</u>

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the period.

(a) Weighted average number of ordinary shares (in thousands)

	Year ended 31 December	
	2018	2017
Number of ordinary shares as at 1 January	7,162,769	7,162,769
Increase in weighted average number of ordinary shares	456,372	—
Weighted average number of ordinary shares	<u>7,619,141</u>	<u>7,162,769</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Property and equipment

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electric equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
As at 1 January 2018	3,823,500	153,137	676,102	131,720	59,487	4,843,946
Additions	32,043	1,397	194,711	18,776	41,957	288,884
Transfer during the year						
(Note 31(b))	—	—	1,793	2,429	(14,721)	(10,499)
Transfer in from investment properties (Note 18)	53,901	—	—	—	—	53,901
Disposals	—	(6,663)	(81,487)	(11,593)	—	(99,743)
Others	(334,867)	—	—	80,105	(37,697)	(292,459)
As at 31 December 2018	<u>3,574,577</u>	<u>147,871</u>	<u>791,119</u>	<u>221,437</u>	<u>49,026</u>	<u>4,784,030</u>
Accumulated depreciation						
As at 1 January 2018	(493,500)	(123,752)	(417,259)	(71,964)	—	(1,106,475)
Charge for the year	(101,894)	(7,860)	(96,638)	(17,238)	—	(223,630)
Transfer in from investment properties (Note 18)	(2,772)	—	—	—	—	(2,772)
Disposals	—	6,471	80,612	9,917	—	97,000
As at 31 December 2018	<u>(598,166)</u>	<u>(125,141)</u>	<u>(433,285)</u>	<u>(79,285)</u>	<u>—</u>	<u>(1,235,877)</u>
Carrying amount						
As at 31 December 2018	<u>2,976,411</u>	<u>22,730</u>	<u>357,834</u>	<u>142,152</u>	<u>49,026</u>	<u>3,548,153</u>
	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electric equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
As at 1 January 2017	3,500,382	152,749	651,065	130,826	63,041	4,498,063
Additions	2,819	3,023	78,045	13,665	41,758	139,310
Transfer during the year						
(Note 31(b))	41,027	—	—	—	(45,312)	(4,285)
Transfer in from investment properties (Note 18)	284,147	—	—	—	—	284,147
Disposals	(4,875)	(2,635)	(53,008)	(12,771)	—	(73,289)
As at 31 December 2017	<u>3,823,500</u>	<u>153,137</u>	<u>676,102</u>	<u>131,720</u>	<u>59,487</u>	<u>4,843,946</u>
Accumulated depreciation						
As at 1 January 2017	(360,682)	(114,628)	(388,647)	(66,655)	—	(930,612)
Charge for the year	(102,872)	(11,181)	(80,627)	(16,552)	—	(211,232)
Transfer in from investment properties (Note 18)	(31,194)	—	—	—	—	(31,194)
Disposals	1,248	2,057	52,015	11,243	—	66,563
As at 31 December 2017	<u>(493,500)</u>	<u>(123,752)</u>	<u>(417,259)</u>	<u>(71,964)</u>	<u>—</u>	<u>(1,106,475)</u>
Carrying amount						
As at 31 December 2017	<u>3,330,000</u>	<u>29,385</u>	<u>258,843</u>	<u>59,756</u>	<u>59,487</u>	<u>3,737,471</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***17 Property and equipment (continued)**

As at 31 December 2018 and 31 December 2017, included in buildings, there is a carrying amount of RMB68,517 thousand and RMB38,308 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

18 Investment properties

	<u>2018</u>	<u>2017</u>
Cost		
As at 1 January	1,084,322	1,367,892
Additions	—	577
Transfer to property and equipment (Note 17)	(53,901)	(284,147)
Disposals	(3,065)	—
Others	(176,766)	—
As at 31 December	<u>850,590</u>	<u>1,084,322</u>
Accumulated depreciation		
As at 1 January	(235,070)	(233,077)
Charge for the year	(28,827)	(33,187)
Transfer to property and equipment (Note 17)	2,772	31,194
Disposals	1,416	—
As at 31 December	<u>(259,709)</u>	<u>(235,070)</u>
Impairment		
As at 1 January	(4,547)	(4,547)
Impairment losses of the year	—	—
As at 31 December	<u>(4,547)</u>	<u>(4,547)</u>
Carrying amount	<u>586,334</u>	<u>844,705</u>

As at 31 December 2018 and 31 December 2017, included in investment properties, there is a carrying amount of RMB103,481 thousand and RMB136,525 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

19 Goodwill

	<u>As at 31 December</u>	
	<u>2018</u>	<u>2017</u>
Cost	2,040,399	2,040,399
Effect of exchange rate changes for cost	59,013	(68,677)
Less: Provision for impairment losses	—	—
Carrying amount	<u>2,099,412</u>	<u>1,971,722</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Goodwill (continued)

Impairment testing on goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

	As at 31 December	
	2018	2017
Investment banking	51,090	51,090
Futures brokerage	252	252
Overseas asset management	2,048,070	1,920,380
Total	<u>2,099,412</u>	<u>1,971,722</u>

The Group acquired the investment banking business together with the relevant assets and liabilities, and the interest in Huatai United Securities Co., Ltd. in 2006. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the investment banking CGU.

The Group acquired the futures brokerage business together with the relevant assets and liabilities, and the interest in Huatai Futures Co., Ltd. (previously known as Huatai Great Wall Futures Co., Ltd.) in 2006. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage CGU.

The Group acquired the overseas asset management business together with the relevant assets and liabilities, and the interest in AssetMark Financial Holdings, Inc. in 2016. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the overseas asset management CGU.

The cash flows generated from each subsidiary acquired are independent from those of the other subsidiaries of the Group. Therefore, each of these acquired subsidiaries is a separate CGU. Management considered that the synergies arising from each acquisition mainly benefited the corresponding acquired subsidiary. Therefore, in performing the impairment test, the goodwill generated from each acquisition is allocated to the corresponding subsidiary acquired.

(i) Investment banking and futures brokerage CGU

The recoverable amounts of each CGU are determined based on value-in-use calculations respectively. These calculations use cash flow projections with reference to financial budgets approved by management covering certain period. Cash-flows beyond the certain period are extrapolated using an estimated weighted average growth rate, which does not exceed the long-term average growth rate for the business in which the CGU operates and reflected specific risks related to the CGU. Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include budgeted income and profit margins, such estimation is based on the CGU's past performance and management's expectations for the market development.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

19 Goodwill (continued)

(ii) Overseas asset management CGU

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation using cash flow projection based on a financial budget covering a 5-year period approved by management. The discount rate applied to the cash flow projections is 13.5%. The growth rate used to extrapolate the cash flows of the above cash-generating units beyond the 5-year period is 3.5%. Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include budgeted revenue and profit margins, such estimation is based on the CGU's past performance and management's expectations for the market development.

As at 31 December 2018, the Group performed its annual goodwill impairment test. No impairment was recognised for the goodwill related to investment banking CGU, futures brokerage CGU and overseas asset management CGU. The Group believes that appropriate assumptions have been made based on available information. The key assumptions based on the cash flow projections of the asset groups may change, which may cause the recoverable amounts to be over or below its book value.

20 Other intangible assets

	Land use rights	Existing relationships with broker-dealers	Trade names	Software and others	Total
Cost					
As at 1 January 2018	359,161	3,727,631	299,463	1,445,500	5,831,755
Additions	—	—	—	438,444	438,444
Disposals	—	—	—	(141)	(141)
Exchange differences	—	189,848	15,251	28,891	233,990
As at 31 December 2018	<u>359,161</u>	<u>3,917,479</u>	<u>314,714</u>	<u>1,912,694</u>	<u>6,504,048</u>
Accumulated amortisation					
As at 1 January 2018	(70,927)	—	(20,868)	(602,211)	(694,006)
Charge for the year	(7,196)	—	(14,973)	(313,790)	(335,959)
Disposals	—	—	—	92	92
Exchange differences	—	—	(1,482)	(10,681)	(12,163)
As at 31 December 2018	<u>(78,123)</u>	<u>—</u>	<u>(37,323)</u>	<u>(926,590)</u>	<u>(1,042,036)</u>
Carrying amount					
As at 31 December 2018	<u>281,038</u>	<u>3,917,479</u>	<u>277,391</u>	<u>986,104</u>	<u>5,462,012</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

20 Other intangible assets (continued)

	Land use rights	Existing relationships with broker-dealers	Trade names	Software and others	Total
Cost					
As at 1 January 2017	359,161	3,957,420	317,923	1,427,847	6,062,351
Additions	—	—	—	201,540	201,540
Disposals	—	—	—	(169,849)	(169,849)
Exchange differences	—	(229,789)	(18,460)	(14,038)	(262,287)
As at 31 December 2017	<u>359,161</u>	<u>3,727,631</u>	<u>299,463</u>	<u>1,445,500</u>	<u>5,831,755</u>
Accumulated amortisation					
As at 1 January 2017	(63,731)	—	(2,650)	(486,946)	(553,327)
Charge for the year	(7,196)	—	(18,542)	(257,635)	(283,373)
Disposals	—	—	—	142,123	142,123
Exchange differences	—	—	324	247	571
As at 31 December 2017	<u>(70,927)</u>	<u>—</u>	<u>(20,868)</u>	<u>(602,211)</u>	<u>(694,006)</u>
Carrying amount					
As at 31 December 2017	<u>288,234</u>	<u>3,727,631</u>	<u>278,595</u>	<u>843,289</u>	<u>5,137,749</u>

Existing relationships with broker-dealers are regarded as having an indefinite useful life and are not amortised because there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

As at 31 December 2018, the Group performed its impairment test on the above individual intangible assets based on the judgement of whether the recoverable amounts of the above individual intangible assets can be reliably estimated. The recoverable amounts are determined based on value-in-use calculation. The Group uses cash flow projections with reference to financial budget approved by management covering a 5-year period and the discount rate of 13.5%. The current rate has reflected the specific risks of the underlying assets. The cash flows for the years beyond the financial budget are estimated at the long-term average growth rate of 3.5%.

Based on management's impairment assessment, no impairment loss was recognised for the year ended 31 December 2018 (2017: Nil).

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries

(a) Details of principal subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of shares held is ordinary, and the issued and fully paid-up capital is expressed in Renminbi Yuan:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held by the Company as at 31 December		Principal activity	Auditor ⁽¹⁾ GAAP	
			2018	2017		2018	2017
Huatai United Securities Co., Ltd. ⁽²⁾	PRC 5 September 1997	RMB 997,480,000	99.92%	99.72%	Investment banking	KPMG PRC	KPMG PRC
Huatai Futures Co., Ltd.	PRC 10 July 1995	RMB 1,609,000,000	60.00%	60.00%	Futures brokerage	PRC GAAP	PRC GAAP
Huatai Purple Gold Investment Co., Ltd. ⁽³⁾	PRC 12 August 2008	RMB 5,200,000,000	100.00%	100.00%	Equity investment	KPMG PRC	KPMG PRC
Huatai Financial Holdings (Hong Kong) Limited ⁽⁴⁾⁽⁵⁾	Hong Kong 23 November 2006	HKD 8,800,000,000	100.00%	100.00%	Securities and futures brokerage	PRC GAAP	PRC GAAP
Huatai International Financial Holdings Co., Ltd. ⁽⁴⁾	Hong Kong 5 April 2017	HKD 8,800,000,002	100.00%	100.00%	Securities and futures brokerage	KPMG	KPMG
Huatai Innovative Investment Co., Ltd.	PRC 21 November 2013	RMB 500,000,000	100.00%	100.00%	Alternative investment	HKFRSs	HKFRSs
Huatai Securities (Shanghai) Asset Management Co., Ltd.	PRC 16 October 2014	RMB 2,600,000,000	100.00%	100.00%	Asset management	KPMG PRC	KPMG PRC
Shenzhen Huatai Ruilin Equity Management (Limited Partnership) ⁽⁵⁾⁽⁶⁾	PRC 28 September 2014	RMB 88,729,942	31.00%	31.00%	Equity investment	PRC GAAP	PRC GAAP
Beijing Huatai Ruihe Medical Industry Investment (Limited Partnership) ⁽⁵⁾⁽⁶⁾	PRC 1 June 2015	RMB 907,000,000	45.00%	45.00%	Equity investment	KPMG PRC	KPMG PRC
Yili Suxin Investment Fund (Limited Partnership) ⁽⁵⁾⁽⁶⁾	PRC 19 February 2016	RMB 1,810,000,000	24.73%	24.73%	Equity investment	KPMG PRC	KPMG PRC
AssetMark Financial Holdings, Inc. ⁽⁵⁾	US 1 January 1996	USD 1,000	100.00%	100.00%	Asset management	KPMG LLP	KPMG LLP
					Spread trading and commodity warrant trading	US GAAP	US GAAP
Huatai Great Wall Capital Management Co., Ltd. ⁽⁵⁾	PRC 6 December 2013	RMB 350,000,000	100.00%	100.00%	Investment	KPMG PRC	KPMG PRC
Huatai Great Wall Investment Management Co., Ltd. ⁽⁵⁾	PRC 3 August 2017	RMB 350,000,000	100.00%	100.00%	management	KPMG PRC	KPMG PRC

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries (continued)

(a) Details of principal subsidiaries (continued)

- (1) Auditors of the respective subsidiaries of the Group are as follows:
- KPMG PRC represents KPMG Huazhen LLP, a firm of certified public accountants registered in PRC;
 - KPMG represents KPMG in Hong Kong, a firm of certified public accountants registered in Hong Kong; and
 - KPMG LLP represents KPMG in the United States, a firm of certified public accountants registered in the United States.
- (2) On 23 March 2018, China Nuclear Energy Industry Corporation transferred its 0.2% shares in Huatai United Securities Co., Ltd to the Company. As at 31 December 2018, the Company's proportion of ownership interest in Huatai United Securities Co., Ltd. changed from 99.72% to 99.92%.
- (3) Huatai Purple Gold Investment Co., Ltd. was previously known as Huatai Zijin Investment Co., Ltd.
- (4) The Company invests in Huatai International Financial Holdings Co., Ltd. by exchange of all its interest in Huatai Financial Holdings (Hong Kong) Limited. Thus, the Company's ownership of Huatai Financial Holdings (Hong Kong) Limited has changed from direct ownership to indirect ownership.
- (5) These subsidiaries are indirectly controlled by the Company.
- (6) As at 31 December 2018, the Company indirectly holds less than 50.00% equity interest of Huatai Ruilin Equity Management (Limited Partnership), Beijing Huatai Ruihe Medical Industry Investment (Limited Partnership) and Yili Suxin Investment Fund (Limited Partnership). Pursuant to the partnership agreement, the Company has the power over these funds and it is able to use the power to influence the amount of variable returns of the Company. The directors of the Company consider the Company has the power to control these funds and they are therefore accounted for as subsidiaries of the Group.

(b) Partially-owned subsidiary with material non-controlling interests

The following table lists out the information relating to Huatai Futures Co., Ltd., the only subsidiary of the Group which has material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination:

	2018	2017
NCI percentage	40%	40%
Assets	19,161,075	22,028,595
Liabilities	(16,495,253)	(19,562,577)
Net assets	2,665,822	2,466,018
Carrying amount of NCI	1,066,329	987,136
Revenue	1,210,484	1,058,604
Profit for the year	205,594	221,029
Other comprehensive income	(432)	(1,175)
Total comprehensive income	205,162	219,854
Profit allocated to NCI	80,649	85,685
Dividend paid to NCI	—	—
Cash flows from operating activities	(2,821,899)	(1,023,610)
Cash flows from investing activities	(290,971)	(376,404)
Cash flows from financing activities	4,055	(26,895)

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 Investments in subsidiaries (continued)

(c) Disposal of equity

Entity name	Consideration	Share of interest disposed	Date of losing control	Reasons of losing control	Difference between consideration received and the related share of net assets in consolidated financial statements	Proportion of remaining shareholding on the date of losing control	Carrying amount of remaining equity interests on the date of losing control	Fair value of remaining equity interests on the date of losing control	Gain or loss from remeasurement of remaining equity interests to fair value	Net cash outflow on disposal of subsidiaries	Other income and gains transferred from equity related to previous equity investment in subsidiaries
Jiangsu Emerging Industry Investment Co., Ltd. ⁽ⁱ⁾	3,825	51%	August 2018	Share disposal	4,870	—	—	—	—	—	—

(i) In August 2018, the Group disposed 51% of equity investment in Jiangsu Emerging Industry Investment Co., Ltd. As a result, the Group lost control of Jiangsu Emerging Industry Investment Co., Ltd.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Interest in associates

	As at 31 December	
	2018	2017
Share of net assets	12,527,828	8,895,908

The following list contains only the particulars of material associates, all of which (except for Bank of Jiangsu Co., Ltd. (“Bank of Jiangsu”) has been listed on the Shanghai Stock Exchange) are unlisted corporate entities whose quoted market price is not available:

Name of associate	Registered place	Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Bank of Jiangsu ⁽ⁱ⁾	Nanjing	11,544,450	5.54%	5.54%	—	Commercial banking
China Southern Asset Management Co., Ltd.	Shenzhen	300,000	45%	45%	—	Fund management
Nanjing Huatai Ruilian NO.1 Funds Mergers (Limited Partnership) ⁽ⁱⁱ⁾	Nanjing	5,442,000	47.78%	—	47.78%	Equity investment

All of the above associates are accounted for using the equity method in the consolidated financial statements.

- (i) The Group has appointed one director in the board of directors of Bank of Jiangsu during 2018. The Group formulated certain specific implementation measures on the finance and operation policy-making of Bank of Jiangsu that had a significant influence over it and recognised interest in associates using the equity method.
- (ii) The Group changed from the limited partner to the co-manager of Nanjing Huatai Ruilian NO.1 Funds Mergers (Limited Partnership) (“NO. 1 Funds Mergers”) in October 2018. As a result, the Group has a significant influence on NO. 1 Funds Mergers, and changed the accounting treatment of equity investment in the fund from financial assets at fair value through profit or loss to investment in associate using the equity method.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

22 Interest in associates (continued)

Summarised financial information of Bank of Jiangsu, China Southern Asset Management Co., Ltd. and NO. 1 Funds Mergers which are individually significant associates to the Group, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Bank of Jiangsu

	2018	2017
Gross amounts of the associate		
Assets	1,925,823,000	1,770,551,000
Liabilities	(1,801,343,709)	(1,657,725,460)
Net assets	124,479,291	112,825,540
Revenue	35,224,000	33,839,000
Profit for the year	13,238,751	12,093,900
Other comprehensive income	1,533,001	(1,398,413)
Total comprehensive income	14,771,752	10,695,487
Dividend received from the associate	115,200	113,920
Reconciled to the Group's interest in the associate:		
Net assets of the associate attributable to the parent company	102,647,000	91,167,000
The Group's effective interest	5.54%	5.54%
The Group's share of net assets of the associate	5,690,534	5,054,101
Carrying amount in the consolidated financial statements	5,690,534	5,054,101

China Southern Asset Management Co., Ltd.

	2018	2017
Gross amounts of the associate		
Assets	7,826,848	8,072,936
Liabilities	(2,928,860)	(3,439,371)
Net assets	4,897,988	4,633,565
Revenue	3,557,101	3,424,320
Profit for the year	839,384	942,049
Other comprehensive income	(13,548)	1,058
Total comprehensive income	825,836	943,107
Dividend received from the associate	252,636	162,000
Reconciled to the Group's interest in the associate:		
Net assets of the associate attributable to the parent company	4,765,340	4,516,252
The Group's effective interest	45%	45%
The Group's share of net assets of the associate	2,144,403	2,032,314
Carrying amount in the consolidated financial statements	2,144,403	2,032,314

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

22 Interest in associates (continued)

NO. 1 Funds Mergers

	<u>2018</u>
Gross amounts of the associate	
Assets	5,896,114
Liabilities	—
Net assets	5,896,114
Revenue	(218,938)
Loss for the year	(322,369)
Other comprehensive income	—
Total comprehensive income	(322,369)
Dividend received from the associate	—
Reconciled to the Group's interest in the associate:	
Net assets of the associate attributable to the parent company	5,896,114
The Group's effective interest	47.78%
The Group's share of net assets of the associate	2,816,960
Other adjustment	28,855
Carrying amount in the consolidated financial statements	<u>2,845,815</u>

Aggregate information of associates that are not individually material:

	<u>2018</u>	<u>2017</u>
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	1,847,076	1,809,493
Aggregate amounts of the Group's share of those associates' gains	135,207	126,882
Other comprehensive income	(3,576)	35,799
Total comprehensive income	131,631	162,681

23 Interest in joint ventures

	<u>As at 31 December</u>	
	<u>2018</u>	<u>2017</u>
Share of net assets	649,833	—

The following list contains only the particulars of material joint venture, which is unlisted corporate entity whose quoted market price is not available:

<u>Name of joint ventures</u>	<u>Registered place</u>	<u>Registered capital</u>	<u>Proportion of ownership interest</u>			<u>Principal activity</u>
			<u>Group's effective interest</u>	<u>Held by the Company</u>	<u>Held by a subsidiary</u>	
Huatai Merchants (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	Nanjing	10,001,000	10%	—	10%	Equity investment

As at 31 December 2018, the Group holds 10% equity interest of Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership). Pursuant to the partnership agreement signed in April 2018, the Group and the third party contractually agree to share control of the fund, and have rights to the net assets of the fund. The directors of the Group consider the fund is jointly

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***23 Interest in joint ventures (continued)**

controlled by the Group and the third party, and it is therefore accounted for as joint ventures of the Group. Thus the Group changed the accounting treatment of equity investment in the fund from financial assets at fair value through profit or loss to investment in joint ventures using the equity method.

Summarised financial information of Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership), which are individually significant joint venture to the Group, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)

	<u>2018</u>
Gross amounts of the associate	
Assets	6,484,127
Liabilities	(352)
Net assets	6,483,775
Revenue	411,306
Profit for the year	390,943
Other comprehensive income	—
Total comprehensive income	390,943
Dividend received from the associate	—
Reconciled to the Group's interest in the associate:	
Net assets of the associate attributable to the parent company	6,483,775
The Group's effective interest	10%
The Group's share of net assets of the associate	648,378
Carrying amount in the consolidated financial statements	<u>648,378</u>

Information of joint venture that is not individually material:

	<u>2018</u>
Carrying amount of individually immaterial joint venture in the consolidated financial statements	<u>1,455</u>
Amounts of the Group's share of immaterial joint venture's loss	(2,045)
Other comprehensive income	—
Total comprehensive income	(2,045)

24 Debt investment at amortised cost**(a) Analysed by nature:**

Non-current

	<u>As at 31 December 2018</u>
Debt securities	13,208,179
Loan and advances	651,983
Less: impairment losses	(5,284)
Total	<u>13,854,878</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***24 Debt investment at amortised cost (continued)****(a) Analysed by nature (continued):**

	As at 31 December 2018
Analysed as:	
Listed outside Hong Kong	7,486,705
Listed inside Hong Kong	564,030
Unlisted	5,804,143
Total	<u>13,854,878</u>

Current

	As at 31 December 2018
Debt securities	2,276,968
Loan and advances	143,100
Less: impairment losses	(782)
Total	<u>2,419,286</u>

Analysed as:	
Listed outside Hong Kong	1,591,806
Listed inside Hong Kong	25,934
Unlisted	801,546
Total	<u>2,419,286</u>

As at 31 December 2018, the Group has pledged debt investment at amortised cost investment with a total fair value of RMB10,387,774 thousand and carrying amount of RMB10,275,034 thousand for the purpose of repurchase agreement business. The fair values of these securities have taken into account the relevant features including the restrictions.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December 2018
Balance at 31 December under IAS 39	—
Impact on initial application of IFRS 9	151
At the beginning of the year	151
Charge for the year	6,978
Reversal of impairment	(1,063)
At the end of the year	<u>6,066</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***25 Financial assets at fair value through other comprehensive income**

Non-current

	<u>As at 31 December 2018</u>
Equity investment	
Equity securities designated at FVOCI	
—Unlisted equity securities	82,294
—Other unlisted equity investment ⁽¹⁾	9,767,639
	<u>9,849,933</u>
Debt investment	
Loan and advances	248,449
Total	<u>10,098,382</u>
Analysed as:	
Unlisted	<u>10,098,382</u>

- (1) As at 31 December 2018, the financial assets at fair value through other comprehensive income above contained the special account investment. The Company has entered into the agreement with China Securities Finance Corporation Limited (CSF), contributed to the special account established and managed by CSF for unified operation. Risk and income arising from the investment shall be shared by all securities firms according to the proportion of their respective contribution. The Group designated the special amount investment at financial assets at fair value through other comprehensive income (non-recycling) as the investment is not held for trading (previously recognised as available-for-sale financial assets under IAS 39 and disclosed in Note 26).

Current

	<u>As at 31 December 2018</u>
Debt investment	
Loan and advances	358,361
Analysed as:	
Unlisted	<u>358,361</u>

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

26 Available-for-sale financial assets

Non-current

	<u>As at 31 December 2017</u>
At fair value:	
—Equity securities	6,548,624
—Debt securities	11,883,339
—Funds	10,057
—Wealth management products	11,324,909
At cost:	
—Equity securities	5,716
Less: Provision for impairment losses	(5,716)
Total	<u><u>29,766,929</u></u>
Analysed as:	
Listed outside Hong Kong	9,359,410
Unlisted	20,407,519
Total	<u><u>29,766,929</u></u>

Current

	<u>As at 31 December 2017</u>
At fair value:	
—Equity securities	10,510,861
—Debt securities	3,223,006
—Funds	156,423
—Wealth management products	983,276
Less: Provision for impairment losses	(57,327)
Total	<u><u>14,816,239</u></u>
Analysed as:	
Listed outside Hong Kong	12,153,725
Listed inside Hong Kong	8,621
Unlisted	2,653,893
Total	<u><u>14,816,239</u></u>

Available-for-sale financial assets were reclassified to debt investment at amortised cost, equity securities designated at financial assets at fair value through other comprehensive income (non-recycling) and financial assets at fair value through profit or loss upon the initial application of IFRS 9 at 1 January 2018 (see Note 2(3)).

27 Financial assets held under resale agreements

(a) Analysed by collateral type:

Non-current

	<u>As at 31 December</u>	
	<u>2018</u>	<u>2017</u>
Equity securities	2,819,242	8,433,090
Less: impairment losses	(7,048)	(8,786)
Total	<u><u>2,812,194</u></u>	<u><u>8,424,304</u></u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

27 Financial assets held under resale agreements (continued)

(a) Analysed by collateral type (continued):

Current

	As at 31 December	
	2018	2017
Equity securities	25,515,232	39,979,757
Debt securities	15,769,084	13,458,628
Others	—	86
Less: impairment losses	(539,945)	(57,460)
Total	<u>40,744,371</u>	<u>53,381,011</u>

(b) Analysed by market:

Non-current

	As at 31 December	
	2018	2017
Shenzhen stock exchange	1,712,819	7,369,590
Shanghai stock exchange	1,106,423	1,063,500
Less: impairment losses	(7,048)	(8,786)
Total	<u>2,812,194</u>	<u>8,424,304</u>

Current

	As at 31 December	
	2018	2017
Shenzhen stock exchange	22,840,766	36,403,031
Shanghai stock exchange	7,433,429	5,086,265
Inter-bank market	10,578,868	11,845,688
Others	431,253	103,487
Less: impairment losses	(539,945)	(57,460)
Total	<u>40,744,371</u>	<u>53,381,011</u>

(c) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2018	2017
Balance at 31 December under IAS 39	66,246	31,630
Impact on initial application of IFRS 9	6,825	—
Adjusted balance at 1 January	73,071	31,630
Charge for the year	473,922	42,909
Reversal of impairment	—	(8,293)
At the end of the year	<u>546,993</u>	<u>66,246</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Financial assets at fair value through profit or loss

Non-current

(a) Analysed by type:

	As at 31 December 2018
Equity securities	3,072,923
Debt securities	750,853
Funds	417,119
Wealth management products	914,281
Total	<u>5,155,176</u>
	As at 31 December 2017
Financial assets designated at fair value through profit or loss:	
—Wealth management products	<u>1,796,667</u>

(b) Analysed as:

	As at 31 December 2018	As at 31 December 2017
Listed outside Hong Kong	406,000	—
Unlisted	4,749,176	1,796,667
Total	<u>5,155,176</u>	<u>1,796,667</u>

Current

(a) Analysed by type:

	As at 31 December 2018
Equity securities	7,299,492
Debt securities	81,535,117
Funds	22,360,796
Wealth management products	5,893,751
Total	<u>117,089,156</u>
	As at 31 December 2017
Held for trading:	
—Debt securities	55,045,651
—Funds	17,460,228
—Equity securities	7,644,385
—Wealth management products	2,603,491
Total	<u>82,753,755</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

28 Financial assets at fair value through profit or loss (continued)

(b) Analysed as:

	As at 31 December 2018	As at 31 December 2017
Listed outside Hong Kong	57,972,062	38,740,252
Listed in Hong Kong	3,305,649	2,709,081
Unlisted	55,811,445	41,304,422
Total	<u>117,089,156</u>	<u>82,753,755</u>

As at 31 December 2018, the fund investments with lock-up periods in its investment portfolio held by the Group are RMB15,641 thousand. The fair values of these funds have taken into account the relevant features including the restrictions.

As at 31 December 2018, the listed equity securities held by the Group included approximately RMB524,038 thousand of restricted shares. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

The equity interest in unlisted securities held by the Group are issued by private companies. The value of the securities is measured by comparing with comparable companies that are listed and in the same sector or measured by using other valuation techniques.

Non-current financial assets at fair value through profit or loss investments are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods. The fair value of the Group's investments in unlisted funds, which mainly invest in publicly traded equities listed in the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group's investments in equity securities without restriction, exchange-listed funds and debt securities are determined with reference to their quoted prices as at reporting date.

As at 31 December 2018, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss investments with total fair value of RMB 1,168,461 thousand to external clients, which did not result in derecognition of the financial assets. The fair value of collaterals for the securities lending business is analysed in Note 34(c) together with the fair value of collaterals of margin financing business.

As at 31 December 2018, the Group has pledged financial assets at fair value through profit or loss investment with a total fair value of RMB10,110 thousand to CSF for the purpose of replacement. The fair values of these securities have taken into account the relevant features including the restrictions.

As at 31 December 2018, the Group has pledged financial assets at fair value through profit or loss investment with a total fair value of RMB26,202,856 thousand for the purpose of repurchase agreement business and bond lending business. The fair values of these securities have taken into account the relevant features including the restrictions.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

29 Refundable deposits

	As at 31 December	
	2018	2017
Deposits with stock exchanges		
—China Securities Depository and Clearing Corporation Limited	366,632	501,501
—Hong Kong Securities Clearing Company Limited	8,275	12,897
—Hong Kong Stock Exchange	526	—
	<u>375,433</u>	<u>514,398</u>
Deposits with futures and commodity exchanges		
—China Financial Futures Exchange	1,991,536	1,780,405
—Shanghai Futures Exchange	1,295,101	1,719,349
—Dalian Commodity Exchange	1,307,482	1,383,878
—Zhengzhou Commodity Exchange	725,813	1,001,240
—Shanghai International Energy Exchange	127,174	—
—Overseas commodity exchange	102,835	30,052
	<u>5,549,941</u>	<u>5,914,924</u>
Deposits with other institutions		
—China Securities Finance Corporation Limited	1,682,150	771,339
—Shanghai Clearing House	107,094	101,324
—Shanghai Gold Exchange	300	300
—Other financial institutions	121,588	—
	<u>1,911,132</u>	<u>872,963</u>
Total	<u>7,836,506</u>	<u>7,302,285</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

30 Deferred taxation

(a) The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the year are as follows:

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of FVTPL	Changes in fair value of derivative financial instruments	Changes in fair value of available-for-sale financial assets	Changes in fair value of FVOCI	Intangible assets recognised in the acquisition	Others	Total
As at 31 December 2017	174,630	1,547,359	(257,295)	303,757	(392,060)	—	(1,189,098)	(1,646,183)	(1,458,890)
Impact on initial application of IFRS 9	(15,404)	—	(131,799)	—	392,060	(272,986)	—	25,817	(2,312)
As at 1 January 2018	159,226	1,547,359	(389,094)	303,757	—	(272,986)	(1,189,098)	(1,620,366)	(1,461,202)
Recognised in profit or loss	211,627	(161,318)	104,373	(617,358)	—	—	(35,682)	72,397	(425,961)
Recognised in reserves	—	—	—	—	—	302,122	—	—	302,122
As at 31 December 2018	370,853	1,386,041	(284,721)	(313,601)	—	29,136	(1,224,780)	(1,547,969)	(1,585,041)
As at 1 January 2017	111,222	1,302,235	(309,823)	179,051	(1,242,901)	—	(1,735,046)	(310,788)	(2,006,050)
Recognised in profit or loss	63,408	245,124	52,528	124,706	—	—	545,948	(1,334,498)	(302,784)
Recognised in reserves	—	—	—	—	850,841	—	—	(897)	849,944
As at 31 December 2017	174,630	1,547,359	(257,295)	303,757	(392,060)	—	(1,189,098)	(1,646,183)	(1,458,890)

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***30 Deferred taxation (continued)****(b) Reconciliation to the statements of financial position**

	As at 31 December	
	2018	2017
Net deferred tax assets recognised in the statement of financial position	225,135	472,556
Net deferred tax liabilities recognised in the statement of financial position . . .	(1,810,176)	(1,931,446)
Total	<u>(1,585,041)</u>	<u>(1,458,890)</u>

(c) Deferred tax assets not recognised

As at 31 December 2018 and 31 December 2017, in accordance with the accounting policy set out in Note 2(19)(ii), the Group has not recognised unused tax losses of RMB1,144,583 thousand and RMB1,323,946 thousand respectively as deferred tax assets, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Most of the tax losses will not expire under current tax legislation.

31 Other non-current assets**(a) Analysed by nature:**

	As at 31 December	
	2018	2017
Leasehold improvements and long-term deferred expenses	<u>259,751</u>	<u>81,047</u>

(b) The movements of leasehold improvements and long-term deferred expenses are as below:

	As at 31 December	
	2018	2017
Balance at the beginning of the year	81,047	79,070
Additions	205,686	36,206
Transfer in from property and equipment (Note 17)	10,499	4,285
Amortisation	(37,481)	(38,514)
Balance at the end of the year	<u>259,751</u>	<u>81,047</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

32 Accounts receivable

(a) Analysed by nature:

	As at 31 December	
	2018	2017
Accounts receivable of:		
—Return swap and OTC options	1,465,653	191,329
—Fee and commission	763,403	524,805
—Brokers, dealers and clearing house	323,014	85,081
—Interest of interest rate swap	223,324	—
—Subscription receivable	120,027	142,612
—Settlement	23,851	428,818
—Redemption of open-ended fund	7,948	409,186
—Others	180,835	208,424
Less: impairment losses	(17,890)	(9,918)
Total	<u>3,090,165</u>	<u>1,980,337</u>

(b) Analysed by ageing:

As at the end of the reporting period, the ageing analysis of accounts receivable, based on the trade date, is as follows:

	As at 31 December	
	2018	2017
Within 1 month	2,676,272	1,498,523
1 to 3 months	335,761	372,601
Over 3 months	78,132	109,213
Total	<u>3,090,165</u>	<u>1,980,337</u>

(c) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2018	2017
Balance at 31 December under IAS 39	9,918	4,624
Impact on initial application of IFRS 9	—	—
At the beginning of the year	9,918	4,624
Charge for the year	8,545	10,561
Reversal of impairment	—	—
Amounts written-off	(573)	(5,267)
At the end of the year	<u>17,890</u>	<u>9,918</u>

(d) Accounts receivable that is not impaired

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

33 Other receivables and prepayments

(a) Analysed by nature:

	As at 31 December	
	2018	2017
Tax refund	472,541	110,662
Other receivables ⁽¹⁾	387,832	243,685
Dividends receivable	210,032	749
Interest receivable ⁽²⁾	184,677	5,630,981
Deferred expenses	25,187	71,718
Others	274,821	201,766
Total	<u>1,555,090</u>	<u>6,259,561</u>

(1) Other receivables:

	As at 31 December	
	2018	2017
Other receivables	1,102,147	630,376
Less: impairment losses	(714,315)	(386,691)
Total	<u>387,832</u>	<u>243,685</u>

The balance of others mainly represents receivables from over-the-counter options clients, the amount due from non-controlling shareholders of Huatai United Securities Co., Ltd., receivables from securities investor protection fund, and sundry receivables arising from normal course of business.

Analysis of the movement of provision for other receivables impairment losses:

	As at 31 December	
	2018	2017
Impairment losses balance at 31 December under IAS 39	386,691	311,746
Impact on initial application of IFRS 9	—	—
At the beginning of the year	386,691	311,746
Charge for the year	343,960	76,452
Reversal of impairment	(16,230)	(1,507)
Amounts written-off	(106)	—
At the end of the year	<u>714,315</u>	<u>386,691</u>

(2) Interest receivable:

	As at 31 December	
	2018	2017
Interest receivable	254,823	5,630,981
Less: impairment losses	(70,146)	—
Total	<u>184,677</u>	<u>5,630,981</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***33 Other receivables and prepayments (continued)***Analysis of the movement of provision for interest receivable impairment losses:*

	As at 31 December	
	2018	2017
Impairment losses balance at 31 December under IAS 39	—	—
Impact on initial application of IFRS 9	—	—
At the beginning of the year	—	—
Charge for the year	70,146	—
Reversal of impairment	—	—
Amounts written-off	—	—
At the end of the year	<u>70,146</u>	<u>—</u>

34 Margin accounts receivable*(a) Analysed by nature:*

	As at 31 December	
	2018	2017
Individuals	43,445,557	57,810,197
Institutions	2,861,681	2,321,474
Less: impairment losses	(118,353)	(140,217)
Total	<u>46,188,885</u>	<u>59,991,454</u>

As at 31 December 2018 and 31 December 2017, the amount of margin accounts receivable which the Group transfers to the securitisation vehicle is RMB1,077,838 thousand and nil, respectively, which did not result in derecognition of the financial assets. The securitisation vehicle issued asset-backed securities to investors with the purchased assets as the underlying assets.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2018	2017
Balance at 31 December under IAS 39	140,217	59,134
Impact on initial application of IFRS 9	—	—
Adjusted balance at 1 January	140,217	59,134
Charge for the year	29,561	89,909
Reversal of impairment	(51,425)	(8,826)
Balance at 31 December	<u>118,353</u>	<u>140,217</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

34 Margin accounts receivable (continued)

(c) The fair value of collaterals for margin financing and securities lending business is analysed as the followings:

	As at 31 December	
	2018	2017
Fair value of collaterals:		
—Equity securities	119,268,801	159,051,344
—Cash	6,966,255	7,461,800
—Funds	3,078,365	683,609
—Debt securities	185,062	65,559
Total	129,498,483	167,262,312

The Group evaluates the collectability of receivable from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin client.

35 Derivative financial instruments

	As at 31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	62,537,399	2,934	(29,667)
Currency derivatives	849,807	26,935	(849)
Equity derivatives	45,549,553	1,902,365	(768,911)
Credit derivatives	35,000	554	(56)
Others	3,050,979	64,594	(5,023)
Total	112,022,738	1,997,382	(804,506)
Less: settlement		(63,424)	28,404
Net position		1,933,958	(776,102)

	As at 31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	48,494,434	12,003	(6,373)
Currency derivatives	457,394	—	(17,341)
Equity derivatives	49,428,114	392,326	(1,085,559)
Credit derivatives	130,684	—	(1,854)
Others	11,947,244	—	(531,163)
Total	110,457,870	404,329	(1,642,290)
Less: settlement		(12,615)	7
Net position		391,714	(1,642,283)

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settling with Shanghai Clearing House, stock index futures, treasury futures and certain commodity futures trading through Huatai Futures Co., Ltd., were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the Group has maintained no open position for these contracts at 31 December 2018 and 31 December 2017.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***36 Clearing settlement funds**

	As at 31 December	
	2018	2017
Deposits with stock exchanges		
—China Securities Depository and Clearing Corporation Limited	3,021,783	1,143,758
—Hong Kong Securities Clearing Company Limited	—	3,349
Deposits with other institutions	1,587	341
Total	<u>3,023,370</u>	<u>1,147,448</u>

37 Cash held on behalf of brokerage clients

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statements of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that they are liable for any loss or misappropriation of their brokerage clients' monies. In the PRC, cash held on behalf of brokerage clients for their transaction and settlement funds is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

38 Cash and bank balances**(a) Analysed by nature:**

	As at 31 December	
	2018	2017
Cash on hand	225	194
Bank balances	28,201,747	27,025,936
Less: impairment losses	(1,347)	—
Total	<u>28,200,625</u>	<u>27,026,130</u>

Bank balances comprise time and demand deposits which bear interest at the prevailing market rates.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2018	2017
Balance at 31 December under IAS 39	—	—
Impact on initial application of IFRS 9	3,496	—
At the beginning of the year	<u>3,496</u>	—
Charge for the year	1	—
Reversal of impairment	<u>(2,150)</u>	—
At the end of the year	<u>1,347</u>	—

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***39 Cash and cash equivalents****(a) Cash and cash equivalents comprise:**

	As at 31 December	
	2018	2017
Cash on hand	225	194
Bank balances	27,996,453	27,025,936
Clearing settlement funds	3,023,296	1,147,448
Financial assets held under resale agreements within 3 months	15,545,947	13,458,300
Less: restricted bank deposits	(5,773,611)	(10,253,293)
Total	<u>40,792,310</u>	<u>31,378,585</u>

The restricted bank deposits include bank deposits with original maturity of more than three months held by the Group, deposits reserved for VAT payable of asset management plans, minimum liquid capital restriction deposits and risk reserve deposits.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Cash and cash equivalents (continued)

(b) Reconciliation of liabilities arising from financing activities:

The following table details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	Short-term debt instruments	Long-term bonds	Other debt instruments	Share capital	Capital reserve	Retained profits	Non-controlling interests	Total
At 31 December 2017	26,957,118	77,319,310	(9)	7,162,769	45,820,627	18,977,215	1,253,974	177,491,004
Impact on initial application of IFRS 9	—	—	—	—	—	549,914	(151)	549,763
At 1 January 2018	26,957,118	77,319,310	(9)	7,162,769	45,820,627	19,527,129	1,253,823	178,040,767
Changes from financing cash flows								
Proceeds from issuance	46,200,314	8,974,000	4,698,718	1,088,731	13,119,211	—	—	74,080,974
Repayment of borrowings	(50,957,800)	(24,600,000)	—	—	—	—	—	(75,557,800)
Interest paid	(902,944)	(3,720,570)	(45,331)	—	—	—	—	(4,668,845)
Dividend paid	—	—	—	—	—	(2,475,450)	(12,715)	(2,488,165)
Other borrowing costs paid	—	—	—	—	(74,736)	—	—	(74,736)
Total changes from financing cash flows	(5,660,430)	(19,346,570)	4,653,387	1,088,731	13,044,475	(2,475,450)	(12,715)	(8,708,572)
Other changes								
Interest expenses	807,490	3,251,607	61,173	—	—	—	—	4,120,270
Others	(30,178)	1,756,383	9	—	—	—	—	1,726,214
Total liability-related other changes	777,312	5,007,990	61,182	—	—	—	—	5,846,484
Total equity-related other changes	—	—	—	—	(5,242)	2,364,425	114,919	2,474,102
At 31 December 2018	22,074,000	62,980,730	4,714,560	8,251,500	58,859,860	19,416,104	1,356,027	177,652,781

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

39 Cash and cash equivalents (continued)

(b) Reconciliation of liabilities arising from financing activities (continued):

	Short-term debt instruments	Long-term bonds	Other debt instruments	Share capital	Capital reserve	Retained profits	Non-controlling interests	Total
At 1 January 2017	1,621,000	75,847,816	460,255	7,162,769	45,837,763	16,194,936	1,302,740	148,427,279
Changes from financing cash flows								
Proceeds from issuance	42,258,270	31,000,000	—	—	—	—	—	73,258,270
Repayment of borrowings	(17,223,260)	(29,500,000)	(460,255)	—	—	—	—	(47,183,515)
Capital injection from non-controlling interests	—	—	—	—	—	—	265,233	265,233
Recognition on disposal of subsidiaries	—	—	—	—	—	—	—	—
Interest paid	(220,186)	(3,436,221)	(10,810)	—	—	—	—	(3,667,217)
Dividend paid	—	—	—	—	—	(3,581,384)	(1,620)	(3,583,004)
Total changes from financing cash flows	24,814,824	(1,936,221)	(471,065)	—	—	(3,581,384)	263,613	19,089,767
Other changes								
Interest expenses	521,294	3,407,715	10,801	—	—	—	—	3,939,810
Total liability-related other changes	521,294	3,407,715	10,801	—	—	—	—	3,939,810
Total equity-related other changes	—	—	—	—	(17,136)	6,363,663	(312,379)	6,034,148
At 31 December 2017	26,957,118	77,319,310	(9)	7,162,769	45,820,627	18,977,215	1,253,974	177,491,004

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 Short-term bank loans

	As at 31 December	
	2018	2017
Credit loans	3,015,791	—

As at 31 December 2018, the interest rates for short-term loans were 3.66%-6.60%.

41 Short-term debt instruments issued

As at 31 December 2018

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
17 HUATAI 05	RMB4,000,000	11/08/2017	11/08/2018	RMB4,000,000	4.65%
17 HUATAI C3	RMB2,000,000	14/09/2017	14/09/2018	RMB2,000,000	5.00%
17 HUATAI 07	RMB4,000,000	20/11/2017	20/11/2018	RMB4,000,000	5.20%
18 HUATAI D1	RMB4,600,000	11/06/2018	11/06/2019	RMB4,600,000	5.00%
FRGN	USD50,000	28/11/2018	28/11/2019	USD50,000	4.61%
Structured notes ⁽¹⁾	RMB16,005,364	Note(1)	Note(1)	RMB16,005,364	Note(1)

Name	Book value as at 1 January 2018	Increase	Decrease	Book value as at 31 December 2018
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
17 HUATAI 05	4,000,000	—	(4,000,000)	—
17 HUATAI C3	2,000,000	—	(2,000,000)	—
17 HUATAI 07	4,000,000	—	(4,000,000)	—
18 HUATAI D1	—	4,727,918	—	4,727,918
FRGN	—	344,636	—	344,636
Structured notes ⁽¹⁾	16,656,010	40,353,236	(40,957,800)	16,051,446
Total	26,656,010	45,425,790	(50,957,800)	21,124,000

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
17 HUATAI 05	RMB4,000,000	11/08/2017	11/08/2018	RMB4,000,000	4.65%
17 HUATAI C3	RMB2,000,000	14/09/2017	14/09/2018	RMB2,000,000	5.00%
17 HUATAI 07	RMB4,000,000	20/11/2017	20/11/2018	RMB4,000,000	5.20%
Structured notes ⁽¹⁾	RMB16,656,010	Note(1)	Note(1)	RMB16,656,010	Note(1)

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

41 Short-term debt instruments issued (continued)

Name	Book value as at 1 January 2017	Increase	Decrease	Book value as at 31 December 2017
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
17 HUATAI 05	—	4,000,000	—	4,000,000
17 HUATAI C3	—	2,000,000	—	2,000,000
17 HUATAI 07	—	4,000,000	—	4,000,000
Structured notes ⁽¹⁾	1,621,000	32,258,270	(17,223,260)	16,656,010
Total	1,621,000	42,258,270	(17,223,260)	26,656,010

(1) In 2018, the Company has issued 3,237 tranches of structured notes, bearing interest ranging from 4.34% to 6.58% per annum, repayable within 1 year. Structured notes repayable more than 1 year are classified as “Long-term bonds” (Note 50).

42 Placements from other financial institutions

Non-current

	As at 31 December	
	2018	2017
Placements from banks	—	—

Current

	As at 31 December	
	2018	2017
Placements from China Securities Finance Co., Ltd.	2,028,261	6,500,000
Placements from banks	3,785,226	529,998
Total	5,813,487	7,029,998

As at 31 December 2018, the placements from banks are unsecured, bearing interest of 4.50%-5.70% per annum, with maturities within 291 days, and the placements from China Securities Finance Co., Ltd. are secured by the securities investment held by the Group, bearing interest of 4.70%-5.10% per annum, with maturities within 53 days.

43 Accounts payable to brokerage clients

	As at 31 December	
	2018	2017
Clients' deposits for brokerage trading	52,259,810	59,717,526
Clients' deposits for margin financing and securities lending	7,232,366	7,618,019
Total	59,492,176	67,335,545

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. Accounts payable to brokerage clients are interest-bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

43 Accounts payable to brokerage clients (continued)

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

44 Employee benefits payable

Non-current

	As at 31 December 2018			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	6,050,184	756,752	(1,860,739)	4,946,197
Cash-settled share-based payments	28,458	71,335	—	99,793
Total	<u>6,078,642</u>	<u>828,087</u>	<u>(1,860,739)</u>	<u>5,045,990</u>

	As at 31 December 2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	4,984,706	1,961,415	(895,937)	6,050,184
Cash-settled share-based payments	3,646	24,812	—	28,458
Total	<u>4,988,352</u>	<u>1,986,227</u>	<u>(895,937)</u>	<u>6,078,642</u>

Current

	As at 31 December 2018			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	2,641,118	3,486,755	(3,281,687)	2,846,186
Contribution to pension scheme	1,200	275,271	(275,264)	1,207
Other social welfare	26,459	782,228	(787,038)	21,649
Total	<u>2,668,777</u>	<u>4,544,254</u>	<u>(4,343,989)</u>	<u>2,869,042</u>

	As at 31 December 2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	2,477,157	4,165,506	(4,001,545)	2,641,118
Contribution to pension scheme	190	314,071	(313,061)	1,200
Other social welfare	39,743	564,392	(577,676)	26,459
Total	<u>2,517,090</u>	<u>5,043,969</u>	<u>(4,892,282)</u>	<u>2,668,777</u>

(a) Share-based payment of a subsidiary

(i) Summary information about share-based payments of a subsidiary

	Year ended 31 December			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Cash-settled share-based payments				
—USD equivalent to RMB	<u>28,458</u>	<u>71,335</u>	<u>—</u>	<u>99,793</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***44 Employee benefits payable (continued)****(a) Share-based payment of a subsidiary (continued)****(ii) Cash-settled share-based payments**

AssetMark Holdings, LLC, a subsidiary of the Group, granted a share-based compensation to all officers of its subsidiary, AssetMark Financial Holdings, Inc., at 1 November 2016. The share-based compensation is calculated based on the fair value of Class C common units of AssetMark Holdings, LLC. The vesting conditions consist of service time and performance conditions. The options will vest in 3 years after the grant date and are exercisable with a period of 4 to 8 years.

Incentive unit activity during the year ended 31 December 2018 is as follows:

	Share quantities	Weighted average remaining contractual years
Balance at 1 January 2018	8,550.13	6.87
—Granted	283.37	7.47
—Forfeited	(16.67)	7.58
Balance at 31 December 2018	<u>8,816.83</u>	5.93

As at 31 December 2018, the accumulated amount of liabilities arising from cash-settled share-based payments was USD14,540 thousand, equivalent to RMB99,793 thousand, and total expenses recognised for the year arising from cash-settled share-based payments amounted to RMB71,335 thousand.

Share-based payments for services are calculated at fair value. The method for determining the fair value of liabilities based on the shares or other equity instruments assumed by the Group is Monte Carlo simulation.

45 Other payables and accruals

	As at 31 December	
	2018	2017
Payables to interest holders of consolidated structured entities ⁽¹⁾	43,497,437	51,519,774
Trade payable	3,358,493	3,002,452
Payable to open-ended funds	2,876,029	1,332,196
Payable to asset-based securities wealth management scheme	950,000	—
Settlement payables	669,789	750,436
Other tax payable	562,300	544,039
Interest payable	229,002	2,382,951
Payable for office building construction	172,822	663,683
Fee and commission payable	119,211	206,920
Futures risk reserve	111,877	98,750
Redemption payables	65,497	1,022,606
Payable to the securities investor protection fund	49,895	92,159
Payable to brokerage agents	20,450	38,961
Others ⁽²⁾	1,110,284	960,308
Total	<u>53,793,086</u>	<u>62,615,235</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

45 Other payables and accruals (continued)

- (1) The financial liabilities arising from the consolidated structured entities with underlying investments in money market and fixed income instruments are classified as other payables and accruals in these consolidated financial statements. It is because, the Group has an obligation to pay other investors upon maturity dates of the structured entities based on the net book value and related terms of those consolidated asset management schemes.
- (2) The balance of others mainly represents exchangeable bond guarantee mortgage dividends and sundry payables arising from normal course of business.

46 Contract liabilities

	As at 31 December	
	2018	2017
Advance consideration received from customers	7,442	—

47 Financial assets sold under repurchase agreements

(a) Analysed by collateral type:

Non-current

	As at 31 December	
	2018	2017
Margin loans receivable backed repurchase	—	1,000,000

Current

	As at 31 December	
	2018	2017
Debt securities	33,097,321	22,421,537
Precious metal	5,819,308	—
Margin loans receivable backed repurchase	1,001,833	1,500,000
Equity securities	176,592	—
Total	40,095,054	23,921,537

(b) Analysed by market:

Non-current

	As at 31 December	
	2018	2017
Over-the-counter	—	1,000,000

Current

	As at 31 December	
	2018	2017
Inter-bank market	6,576,171	6,101,557
Shanghai stock exchange	24,721,365	14,526,100
Shenzhen stock exchange	431,629	735,076
Over-the-counter	8,365,889	2,558,804
Total	40,095,054	23,921,537

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

48 Financial liabilities at fair value through profit or loss

Non-current

	As at 31 December	
	2018	2017
Financial liabilities designated at fair value through profit or loss	2,325,405	2,345,668

Current

	As at 31 December	
	2018	2017
Financial liabilities held for trading	2,812,857	11,907,337
Financial liabilities designated at fair value through profit or loss	61,727	128,323
Total	2,874,584	12,035,660

In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities and private funds with the underlying investments related to listed equity investments in active markets and unlisted equities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors or limited partners upon maturity dates of the structured entities based on net book value and related terms of those consolidated asset management schemes or private equity funds.

The amount of change in the fair value of the financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk is nil as at 31 December 2018.

49 Long-term bonds due within one year

As at 31 December 2018

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
HUATAI B1910	USD400,000	08/10/2014	08/10/2019	USD399,665	3.625%
15 HUATAI 03	RMB5,000,000	21/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI G1	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
16 HUATAI C2	RMB3,000,000	21/10/2016	21/10/2019	RMB3,000,000	3.12%
16 HUATAI G1	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G3	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
17 HUATAI 01	RMB6,000,000	24/02/2017	24/08/2018	RMB6,000,000	4.50%
17 HUATAI 03	RMB4,000,000	15/05/2017	15/05/2019	RMB4,000,000	5.00%
17 HUATAI 06	RMB5,000,000	19/10/2017	19/04/2019	RMB5,000,000	4.98%
Structured notes ⁽¹⁾	RMB4,174,000	Note (1)	Note (1)	RMB4,174,000	5.10%-5.50%

Notes to the Financial Statements (continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

49 Long-term bonds due within one year (continued)

Name	Book value as at 1 January 2018	Increase	Decrease	Book value as at 31 December 2018
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01	3,999,226	774	(4,000,000)	—
HUATAI B1910	—	2,767,406	—	2,767,406
15 HUATAI 03	5,000,000	—	(5,000,000)	—
15 HUATAI G1	6,598,254	1,746	(6,600,000)	—
16 HUATAI C2	—	3,000,000	(3,000,000)	—
16 HUATAI G1	—	3,508,901	—	3,508,901
16 HUATAI G3	—	5,009,345	—	5,009,345
17 HUATAI 01	6,000,000	—	(6,000,000)	—
17 HUATAI 03	—	4,126,575	—	4,126,575
17 HUATAI 06	—	5,049,800	—	5,049,800
Structured notes ⁽¹⁾	—	4,382,589	—	4,382,589
Total	<u>21,597,480</u>	<u>27,847,136</u>	<u>(24,600,000)</u>	<u>24,844,616</u>

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
15 HUATAI 01	RMB6,000,000	22/01/2015	23/01/2017	RMB6,000,000	5.90%
15 HUATAI 03	RMB5,000,000	21/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI 04	RMB18,000,000	25/06/2015	26/06/2017	RMB18,000,000	5.50%
15 HUATAI G1	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
17 HUATAI 01	RMB6,000,000	24/02/2017	24/08/2018	RMB6,000,000	4.50%
Structured notes ⁽¹⁾ ...	RMB1,900,000	Note (1)	Note (1)	RMB1,900,000	2.40%-5.00%

Name	Book value as at 1 January 2017	Increase	Decrease	Book value as at 31 December 2017
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01	—	3,999,226	—	3,999,226
15 HUATAI 01	6,000,000	—	(6,000,000)	—
15 HUATAI 03	—	5,000,000	—	5,000,000
15 HUATAI 04	18,000,000	—	(18,000,000)	—
15 HUATAI G1	—	6,598,254	—	6,598,254
17 HUATAI 01	—	6,000,000	—	6,000,000
Structured notes ⁽¹⁾	1,900,000	—	(1,900,000)	—
Total	<u>25,900,000</u>	<u>21,597,480</u>	<u>(25,900,000)</u>	<u>21,597,480</u>

(1) As at 31 December 2018, RMB4.38 billion of structured notes would mature within one year.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Long-term bonds

As at 31 December 2018

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 02	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
HUATAI B1910	USD400,000	08/10/2014	08/10/2019	USD399,665	3.625%
16 HUATAI C1	RMB5,000,000	14/10/2016	14/10/2021	RMB5,000,000	3.30%
16 HUATAI C2	RMB3,000,000	21/10/2016	21/10/2019	RMB3,000,000	3.12%
16 HUATAI G1	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G2	RMB2,500,000	06/12/2016	06/12/2021	RMB2,500,000	3.78%
16 HUATAI G3	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
16 HUATAI G4	RMB3,000,000	14/12/2016	14/12/2021	RMB3,000,000	3.97%
17 HUATAI 02	RMB2,000,000	24/02/2017	24/02/2020	RMB2,000,000	4.65%
17 HUATAI 03	RMB4,000,000	15/05/2017	15/05/2019	RMB4,000,000	5.00%
17 HUATAI 04	RMB6,000,000	15/05/2017	15/05/2020	RMB6,000,000	5.25%
17 HUATAI C2	RMB5,000,000	27/07/2017	27/07/2020	RMB5,000,000	4.95%
17 HUATAI 06	RMB5,000,000	19/10/2017	19/04/2019	RMB5,000,000	4.98%
18 HUATAI C1	RMB1,000,000	15/03/2018	15/03/2020	RMB1,000,000	5.65%
18 HUATAI C2	RMB2,800,000	10/05/2018	10/05/2021	RMB2,800,000	5.20%
18 HUATAI G1	RMB3,000,000	26/11/2018	26/11/2023	RMB3,000,000	3.88%
18 HUATAI G2	RMB1,000,000	26/11/2018	26/11/2021	RMB1,000,000	4.17%
Structured notes ⁽¹⁾	RMB4,174,000	Note(1)	Note(1)	RMB4,174,000	5.1%-5.5%

Name	Book value as at 1 January 2018	Increase	Decrease	Book value as at 31 December 2018
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 02	5,992,319	176,314	—	6,168,633
HUATAI B1910	2,608,477	136,259	(2,744,736)	—
16 HUATAI C1	5,000,000	35,712	—	5,035,712
16 HUATAI C2	3,000,000	—	(3,000,000)	—
16 HUATAI G1	3,500,000	—	(3,500,000)	—
16 HUATAI G2	2,500,000	6,732	—	2,506,732
16 HUATAI G3	5,000,000	—	(5,000,000)	—
16 HUATAI G4	3,000,000	5,873	—	3,005,873
17 HUATAI 02	2,000,000	78,732	—	2,078,732
17 HUATAI 03	4,000,000	—	(4,000,000)	—
17 HUATAI 04	6,000,000	198,493	—	6,198,493
17 HUATAI C2	5,000,000	107,815	—	5,107,815
17 HUATAI 06	5,000,000	—	(5,000,000)	—
18 HUATAI C1	—	1,042,544	(990)	1,041,554
18 HUATAI C2	—	2,894,141	(2,772)	2,891,369
18 HUATAI G1	—	3,011,162	(2,970)	3,008,192
18 HUATAI G2	—	1,003,999	(990)	1,003,009
Structured notes ⁽¹⁾	3,000,000	1,174,000	(4,174,000)	—
Total	55,600,796	9,871,776	(27,426,458)	38,046,114

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

50 Long-term bonds (continued)

As at 31 December 2017

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
13 HUATAI 02	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
HUATAI B1910	USD400,000	08/10/2014	08/10/2019	USD399,665	3.625%
15 HUATAI 03	RMB5,000,000	21/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI G1	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
16 HUATAIQI	RMB600,000	18/07/2016	18/07/2020	RMB600,000	3.94%
16 HUATAI C1	RMB5,000,000	14/10/2016	14/10/2021	RMB5,000,000	3.30%
16 HUATAI C2	RMB3,000,000	21/10/2016	21/10/2019	RMB3,000,000	3.12%
16 HUATAI G1	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G2	RMB2,500,000	06/12/2016	06/12/2021	RMB2,500,000	3.78%
16 HUATAI G3	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
16 HUATAI G4	RMB3,000,000	14/12/2016	14/12/2021	RMB3,000,000	3.97%
17 HUATAI 01	RMB6,000,000	24/02/2017	24/08/2018	RMB6,000,000	4.50%
17 HUATAI 02	RMB2,000,000	24/02/2017	24/02/2020	RMB2,000,000	4.65%
17 HUATAI 03	RMB4,000,000	15/05/2017	15/05/2019	RMB4,000,000	5.00%
17 HUATAI 04	RMB6,000,000	15/05/2017	15/05/2020	RMB6,000,000	5.25%
17 HUATAI C2	RMB5,000,000	27/07/2017	27/07/2020	RMB5,000,000	4.95%
17 HUATAI 06	RMB5,000,000	19/10/2017	19/04/2019	RMB5,000,000	4.98%
Structured notes ⁽¹⁾	RMB3,000,000	26/12/2017	26/02/2019	RMB3,000,000	5.15%

Name	Book value as at 1 January 2017	Increase	Decrease	Book value as at 31 December 2017
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01	3,997,332	—	(3,997,332)	—
13 HUATAI 02	5,991,065	1,254	—	5,992,319
HUATAI B1910	2,764,621	3,785	(159,929)	2,608,477
15 HUATAI 03	5,000,000	—	(5,000,000)	—
15 HUATAI G1	6,594,798	—	(6,594,798)	—
16 HUATAIQI	600,000	—	(600,000)	—
16 HUATAI C1	5,000,000	—	—	5,000,000
16 HUATAI C2	3,000,000	—	—	3,000,000
16 HUATAI G1	3,500,000	—	—	3,500,000
16 HUATAI G2	2,500,000	—	—	2,500,000
16 HUATAI G3	5,000,000	—	—	5,000,000
16 HUATAI G4	3,000,000	—	—	3,000,000
17 HUATAI 01	—	6,000,000	(6,000,000)	—
17 HUATAI 02	—	2,000,000	—	2,000,000
17 HUATAI 03	—	4,000,000	—	4,000,000
17 HUATAI 04	—	6,000,000	—	6,000,000
17 HUATAI C2	—	5,000,000	—	5,000,000
17 HUATAI 06	—	5,000,000	—	5,000,000
Structured notes ⁽¹⁾	3,000,000	3,000,000	(3,000,000)	3,000,000
Total	49,947,816	31,005,039	(25,352,059)	55,600,796

(1) The Company has issued 5 tranches of long-term structured notes in the year ended 31 December 2018. As at 31 December 2018, the structured notes due within one year is classified as “Long-term bonds due within one year” (Note 49).

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***51 Long-term bank loans due within one year**

	As at 31 December	
	2018	2017
Credit bank loans	15,820	—

52 Long-term bank loans

	As at 31 December	
	2018	2017
Credit bank loans	1,698,769	—
Less: credit bank loans due within one year (Note 51)	(15,820)	—
Total	1,682,949	—

On 14 November 2018, the Group executed a Loan and Security Agreement with Credit Suisse for USD250 million term loan and secured a revolving line of credit that permit the Group to borrow up to USD20 million, interest on amounts borrowed under the term loan and line of credit equal to LIBOR plus 3.50%.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Share capital, reserves and retained profits

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital	Reserves					Retained profits	Total
			Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve		
As at 31 December 2017		7,162,769	45,577,448	3,919,488	8,050,883	1,001,871	18,981	12,951,361	78,682,801
Impact on initial application of IFRS 9		—	—	34,366	68,733	(335,770)	—	240,564	7,893
As at 1 January 2018		7,162,769	45,577,448	3,953,854	8,119,616	666,101	18,981	13,191,925	78,690,694
Changes in equity for 2018									
Profit for the year		—	—	—	—	—	—	5,359,764	5,359,764
Other comprehensive income		—	—	—	—	(911,126)	—	—	(911,126)
Total comprehensive income		—	—	—	—	(911,126)	—	5,359,764	4,448,638
Issuance of A share		1,088,731	13,044,475	—	—	—	—	—	14,133,206
Appropriation to surplus reserve		—	—	535,976	—	—	—	(535,976)	—
Appropriation to general reserve		—	—	—	1,071,953	—	—	(1,071,953)	—
Dividends declared for the year		—	—	—	—	—	—	(2,475,450)	(2,475,450)
Other		—	—	—	—	(12,225)	—	12,225	—
As at 31 December 2018	61	8,251,500	58,621,923	4,489,830	9,191,569	(257,250)	18,981	14,480,535	94,797,088

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Share capital, reserves and retained profits (continued)

(a) Movements in components of equity (continued)

	Note	Share capital	Reserves					Retained profits	Total
			Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve		
As at 1 January 2017		7,162,769	45,577,448	3,071,195	6,354,298	3,162,823	18,981	10,594,696	75,942,210
Changes in equity for 2017									
Profit for the year		—	—	—	—	—	—	8,482,927	8,482,927
Other comprehensive income		—	—	—	—	(2,160,952)	—	—	(2,160,952)
Total comprehensive income		—	—	—	—	(2,160,952)	—	8,482,927	6,321,975
Appropriation to surplus reserve		—	—	848,293	—	—	—	(848,293)	—
Appropriation to general reserve		—	—	—	1,696,585	—	—	(1,696,585)	—
Dividends declared for the year		—	—	—	—	—	—	(3,581,384)	(3,581,384)
As at 31 December 2017	61	7,162,769	45,577,448	3,919,488	8,050,883	1,001,871	18,981	12,951,361	78,682,801

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Share capital, reserves and retained profits (continued)

(b) Share capital

All shares issued by the Company are fully paid common shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	As at 31 December 2018		As at 31 December 2017	
	Number of shares	Nominal value	Number of shares	Nominal value
	(Thousand)		(Thousand)	
Registered, issued and fully paid:				
A shares of RMB1 each	6,532,454	6,532,454	5,443,723	5,443,723
H shares of RMB1 each	1,719,046	1,719,046	1,719,046	1,719,046
Total	<u>8,251,500</u>	<u>8,251,500</u>	<u>7,162,769</u>	<u>7,162,769</u>

On 1 June 2015, the Company completed its initial public offering of 1,400,000,000 H shares on the Main Board of the Hong Kong Stock Exchange. On 19 June 2015, the Company partially exercised the over-allotment option and issued 162,768,800 H shares.

According to the relevant requirements of PRC regulators, existing shareholder of the state-owned shares of the Company have transferred an aggregate number of 156,276,880 state-owned shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H shares on a one-for-one basis.

In July 2018, the Company completed private placement of issuance of 1,088,731,200 new A shares. The total paid-up share capital of the Company after the change is RMB8,251,500 thousand.

The H shares rank pari passu in all respects with the existing A shares including the right to receive all dividends and distributions declared or made.

(c) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of face value and the difference between the considerations of acquisition of equity interests from non-controlling shareholders and the carrying amount of the proportionate net assets.

The Company was listed on the Main Board of the Hong Kong Stock Exchange on 1 June 2015. The excess of the proceeds over the nominal value of the total number of ordinary shares issued which amounted to RMB28,590,928 thousand was credited to the capital reserve, net of offering expenses (of which the inter-group transactions were eliminated on consolidation) of RMB441,058 thousand.

The Company non-publicly issued new A shares on 31 July 2018. The excess of the proceeds over the nominal value of the total number of ordinary shares issued which amounted to RMB13,044,475 thousand was credited to the capital reserve, net of offering expenses (of which the inter-group transactions were eliminated on consolidation) of RMB74,736 thousand.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Share capital, reserves and retained profits (continued)

(d) Surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

(e) General reserve

General reserve includes general risk reserve and 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, 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 securities trading losses, the Company appropriates 10% from its annual net profit to the transaction risk reserve.

The Company's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

(f) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period.

(g) Translation reserve

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

(h) Dividends

Pursuant to the resolution of the general meeting of the shareholders dated 22 October 2018, the Company was approved to distribute cash dividends of RMB3.00 (tax inclusive) per 10 shares to the existing holders of A Shares and H shares, with total cash dividends amounting to RMB2,475,450 thousand.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2018 and 31 December 2017 not provided for in the financial statements were as follows:

	As at 31 December	
	2018	2017
Contracted, but not provided for	1,770,619	791,124

The above-mentioned capital commitments mainly represent the construction of properties and securities underwriting commitments of the Group.

(b) Operating lease commitments

As at 31 December 2018 and 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2018	2017
Within 1 year (inclusive)	325,380	252,026
1-2 years (inclusive)	208,884	224,201
2-3 years (inclusive)	153,962	161,373
After 3 years	144,260	115,610
Total	<u>832,486</u>	<u>753,210</u>

55 Interests in structured entities

(a) Interests in structured entities consolidated by the Group

Structured entities consolidated by the Group mainly stand for the asset management schemes where the Group involves as manager or investment consultant and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management product to a level of such significance that it indicates that the Group is a principal.

As at 31 December 2018, the Group consolidates 32 structured entities (as at 31 December 2017 the Group consolidates 29 structured entities), which are mainly asset management schemes. As at 31 December 2018 and 31 December 2017, the total assets of the consolidated structured entities are RMB56,643,506 thousand and RMB60,600,933 thousand respectively, and the carrying amount of interests held by the Group in the consolidated structured entities are RMB8,077,163 thousand and RMB5,610,164 thousand respectively.

(b) Interests in structured entities sponsored by the Group but not consolidated

Structured entities for which the Group served as general partner or manager, therefore has power over them during the reporting periods are asset management schemes. Except for the structured entities that the Group has consolidated as set out in Note 55(a), the Group's exposure to the variable returns in the structured entities in which the Group has interest is not significant. The Group therefore did not consolidate these structured entities.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Interests in structured entities (continued)

(b) Interests in structured entities sponsored by the Group but not consolidated (continued)

As at 31 December 2018 and 31 December 2017, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB764,743,576 thousand and RMB897,646,449 thousand respectively. As at 31 December 2018 and 31 December 2017, the carrying amount of interests held by the Group in these unconsolidated structured entities are RMB1,139,237 thousand and RMB1,203,494 thousand respectively.

During the years ended 31 December 2018 and 31 December 2017, income derived from these unconsolidated structured entities held by the Group amounted to RMB844,314 thousand and RMB817,077 thousand respectively.

(c) Interests in structured entities sponsored by third party institutions

The types of structured entities that the Group does not consolidate but in which it holds interests include funds, asset management schemes, trust schemes, and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at 31 December 2018 and 31 December 2017, which are listed as below:

As at 31 December 2018			
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Funds	13,210,731	—	13,210,731
Wealth management products	4,506,828	9,767,639	14,274,467
Total	<u>17,717,559</u>	<u>9,767,639</u>	<u>27,485,198</u>

As at 31 December 2017			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Funds	17,439,657	42,143	17,481,800
Wealth management products	4,400,157	13,837,294	18,237,451
Total	<u>21,839,814</u>	<u>13,879,437</u>	<u>35,719,251</u>

56 Outstanding litigations

As at 31 December 2018 and 31 December 2017, the Group involved as defendant in certain lawsuit with claim amounts of approximately RMB14,326 thousand and RMB2,252 thousand, respectively. Based on the court rulings, advices from legal representatives and management

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

56 Outstanding litigations (continued)

judgement, no provision had been made to the claim amounts. The directors of the Company are of the opinion the final court judgement will not have a significant impact on the Group's financial position or operations.

57 Related party relationships and transactions

(a) Relationship of related parties

(i) Major shareholders

The detailed information of the transactions and balances with Group's major shareholders and their subsidiaries is set out in Note 57(b)(i).

(ii) Subsidiaries of the Group

The detailed information of the Group's subsidiaries is set out in Note 21.

(iii) Associates of the Group

The detailed information of the Group's associates is set out in Note 22.

(iv) Joint ventures of the Group

The detailed information of the Group's joint ventures is set out in Note 23.

(v) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals.

(b) Related parties transactions and balances

(i) Transactions between the Group and major shareholders and their subsidiaries:

	As at 31 December	
	2018	2017
Balances at the end of the year:		
Financial assets at fair value through profit or loss	329,514	157,638
Debt investment at amortised cost	302,614	—
Other receivables and prepayments	—	1,401
Accounts payable to brokerage clients	18,919	50
Other payables and accruals	3,211	3,211
	Year ended 31 December	
	2018	2017
Transactions during the year:		
Fee and commission income	21,583	7,150
Net investment gains	17,096	6,313
Interest expenses	1,429	—

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***57 Related party relationships and transactions (continued)****(b) Related parties transactions and balances (continued)**

(i) Transactions between the Group and major shareholders and their subsidiaries (continued):

During the year of 2018, the Group has purchased the corporate bonds issued by major shareholders amounting to RMB451,204 thousand. During the year of 2017, the Group has disposed the corporate bonds issued by major shareholders amounting to RMB3,716 thousand.

During the year of 2018 and 2017, the Group has made repurchase agreements with major shareholders and their subsidiaries for the total amount of RMB3,715,850 thousand and nil, respectively.

During the year of 2018 and 2017, investments made by major shareholders into private equity investment funds managed and controlled by the Group are RMB90,000 thousand and nil, respectively.

(ii) Transactions between the Group and associates:

	As at 31 December	
	2018	2017
Balances at the end of the year:		
Cash and bank balances	450,311	508,923
Accounts receivable	105,845	74,988
Other receivables and prepayments	131,324	6,214
Available-for-sale financial assets	—	193,353
Financial assets at fair value through profit or loss	—	446,573
Accounts payable to brokerage clients	17,462	1,051
Other payables and accruals	555	513
	Year ended 31 December	
	2018	2017
Transactions during the year:		
Fee and commission income	209,331	193,104
Interest income	15,604	84,582
Net investment gains	18,465	10,740
Other income and gains	9,752	8,306
Interest expenses	72	—

During the year of 2018, the Group has redeemed the corporate bond issued by associates for RMB642,241 thousand. During the year of 2017, the Group has subscribed the corporate bond issued by associates for RMB445,417 thousand.

During the year of 2018 and 2017, the capital injection made by the Group into the associates are RMB417,760 thousand and RMB11,425 thousand, respectively. During the year of 2018 and 2017, the disinvestment made by the Group from the associates are RMB534,530 thousand and RMB128,142 thousand, respectively.

During the year of 2018 and 2017, the Group has made repurchase agreements with associates for the total amount of RMB1,378,000 thousand and nil, respectively.

During the year of 2018 and 2017, the dividend received from associates are RMB417,472 thousand and RMB229,819 thousand, respectively.

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***57 Related party relationships and transactions (continued)****(b) Related parties transactions and balances (continued)**

(iii) Transactions between the Group and joint ventures:

	As at 31 December	
	2018	2017
Balances at the end of the year:		
Accounts payable to brokerage clients	69	—
	Year ended 31 December	
	2018	2017
Transactions during the year:		
Fee and commission income	13,298	—

During the year of 2018 and 2017, the capital injection made by the Group into the joint ventures are RMB3,500 thousand and nil, respectively.

(iv) Transactions between the Group and other related parties:

	As at 31 December	
	2018	2017
Balances at the end of the year:		
Accounts payable to brokerage clients	1,282	—
	Year ended 31 December	
	2018	2017
Transactions during the year:		
Fee and commission income	37	—

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors is as follows:

	As at 31 December	
	2018	2017
Short-term employee benefits		
—Fees, salaries, allowances and bonuses	37,027	37,739
Post-employment benefits		
—Contribution to pension scheme	1,422	1,547
Total	<u>38,449</u>	<u>39,286</u>

Total remuneration is included in “staff costs” (see Note 10).

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 Segment reporting

Management manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- The wealth management segment engages in the trading of stocks, funds, bonds and futures on behalf of clients, to provide customers with a variety of financial products sales services and asset allocation services. Moreover, the activities of providing margin financing, securities lending, securities-backed lending and sell financial products are included in this segment.
- The institutional services segment mainly provides investment banking business to clients, research and institutional sales, equity securities investments and transactions, fixed income investments and transactions, OTC financial products and transactions.
- The investment management segment mainly consists of asset management, private equity investment, alternative investments and commodities trading and arbitrage.
- The international business segment mainly includes the overseas business of overseas subsidiaries.
- Other segments include other operations of head office, mainly including interest income, share of profit of associates, interest expenses of working capitals, and costs and expenses of middle offices and back offices.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 Segment reporting (continued)

(a) Business segments

For the year ended 31 December 2018

	Wealth management	Institutional services	Investment management	International business	Others	Total
Revenue						
—External	12,547,315	3,047,435	3,174,470	3,108,753	1,798,956	23,676,929
—Inter-segment	—	6,312	—	1,842	2,492,005	2,500,159
Other income and gains	443,778	55,969	224,339	4,944	152,699	881,729
Segment revenue and other income	12,991,093	3,109,716	3,398,809	3,115,539	4,443,660	27,058,817
Segment expenses	(9,138,114)	(3,723,151)	(1,207,630)	(2,840,017)	(2,186,257)	(19,095,169)
Segment operating profit / (loss)	3,852,979	(613,435)	2,191,179	275,522	2,257,403	7,963,648
Share of profit / (loss) of associates and joint ventures	—	7,151	(175,216)	—	1,127,374	959,309
Profit / (loss) before income tax	3,852,979	(606,284)	2,015,963	275,522	3,384,777	8,922,957
Interest income	7,676,793	312,419	423,708	137,229	932,219	9,482,368
Interest expenses	(3,117,152)	(1,856,658)	(124,134)	(279,460)	(1,089,566)	(6,466,970)
Depreciation and amortisation expenses	(94,285)	(33,020)	(10,860)	(181,341)	(306,391)	(625,897)
Impairment loss on other assets	(5,295)	—	—	—	—	(5,295)
(Provision) / reverse for impairment loss on financial assets	(541,220)	(301,713)	(19,129)	(9,520)	8,888	(862,694)
Segment assets	138,579,673	83,486,332	70,659,010	23,639,713	117,330,040	433,694,768
Additions to non-current segment assets during the year	232,227	43,994	24,051	143,688	284,385	728,345
Segment liabilities	(135,301,554)	(81,533,946)	(51,412,688)	(15,390,296)	(45,306,680)	(328,945,164)

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

58 Segment reporting (continued)

(a) Business segments (continued)

For the year ended 31 December 2017

	Wealth management	Institutional services	Investment management	International business	Others	Total
Revenue						
—External	14,008,278	5,327,644	2,589,743	3,669,575	3,982,287	29,577,527
—Inter-segment	18,067	62,243	1,437	—	1,988,854	2,070,601
Other income and gains	72,623	35,128	844,213	97,519	823,380	1,872,863
Segment revenue and other income	14,098,968	5,425,015	3,435,393	3,767,094	6,794,521	33,520,991
Segment expenses	(9,163,180)	(3,586,952)	(1,183,337)	(3,603,246)	(2,946,057)	(20,482,772)
Segment operating profit	4,935,788	1,838,063	2,252,056	163,848	3,848,464	13,038,219
Share of profit of associates and joint ventures	—	2,984	39,283	—	497,711	539,978
Profit before income tax	4,935,788	1,841,047	2,291,339	163,848	4,346,175	13,578,197
Interest income	7,760,129	150,957	725,310	74,455	638,072	9,348,923
Interest expenses	(3,335,182)	(1,309,714)	(146,208)	(159,518)	(798,477)	(5,749,099)
Depreciation and amortisation expenses	(120,529)	(24,553)	(8,914)	(162,541)	(249,769)	(566,306)
Provision for impairment losses	(109,418)	(127,516)	(5,180)	(16,916)	—	(259,030)
Segment assets	178,175,834	73,362,625	74,160,523	15,835,319	160,953,261	502,487,562
Additions to non-current segment assets during the year	140,488	19,279	11,563	100,702	109,887	381,919
Segment liabilities	(174,949,018)	(69,430,859)	(58,290,110)	(8,049,167)	(103,178,496)	(413,897,650)

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***58 Segment reporting (continued)****(a) Business segments (continued)**

Reconciliations of segment revenues, profit or loss, assets and liabilities:

	Year ended 31 December	
	2018	2017
Revenue		
Total revenue and other income for segments	27,058,817	33,520,991
Elimination of inter-segment revenue	(2,552,083)	(2,197,619)
Consolidated revenue and other income	<u>24,506,734</u>	<u>31,323,372</u>
Profit		
Total profit before income tax for segments	8,922,957	13,578,197
Elimination of inter-segment profit	(2,474,286)	(1,993,553)
Consolidated profit before income tax	<u>6,448,671</u>	<u>11,584,644</u>
Assets		
Total assets for segments	433,694,768	502,487,562
Elimination of inter-segment assets	(65,028,894)	(121,005,022)
Consolidated total assets	<u>368,665,874</u>	<u>381,482,540</u>
Liabilities		
Total liabilities for segments	(328,945,164)	(413,897,650)
Elimination of inter-segment liabilities	65,028,894	121,005,022
Consolidated total liabilities	<u>(263,916,270)</u>	<u>(292,892,628)</u>

For the year ended 31 December 2018 and 31 December 2017, the Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue.

(Expressed in thousands of Renminbi, unless otherwise stated)

(b) Geographical segments

Segment Revenue

F-225

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management

The Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

During the reporting period, the Group was exposed to three types of credit risk: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses arising from default of customers in credit business such as margin financing and securities lending, and securities-backed lending; (iii) counterparty credit risk from a counterparty's default on the derivative transaction, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives.

The Group uses its risk management systems to monitor its credit risk on a real time basis, keeps track of the credit risk of the Group's business products and its transaction counterparties, provides analyses and pre-warning reports, and adjusts its credit limits in a timely manner. The Group will also measure the credit risks of its major operations through stress test and sensitivity analysis.

For credit risk in debt securities trading, the Group monitors the issuer and bonds during the reporting period. The Group established the credit rating framework and conducted research on the debt securities held by the Group. The Group also assessed the creditability of counterparties to mitigate related default risk on regular basis. In respect of margin financing and securities lending, securities-backed lending and OTC derivative transaction, the Group evaluates the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determine the customers' credit rating. Penalties for defaults were specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending and OTC derivative transaction and promptly communicates with customers on any abnormalities identified to avoid defaults. In respect of innovative credit business, preliminary due diligence is performed with a comprehensive project feasibility report and a due diligence report submitted for approval by the Group before a project can be launched.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure to credit risk

Maximum exposure to credit risk of the Group without taking account of any collateral and other credit enhancements:

	As at 31 December	
	2018	2017
Debt investment at amortised cost	16,274,164	—
Refundable deposits	7,836,506	7,302,285
Accounts receivable	3,090,165	1,980,337
Other receivables and prepayments	572,509	5,874,665
Margin accounts receivable	46,188,885	59,991,454
Financial assets at fair value through other comprehensive income	606,809	—
Available-for-sale financial assets	—	15,111,937
Financial assets held under resale agreements	43,556,565	61,805,315
Financial assets at fair value through profit or loss	83,454,431	56,212,040
Derivative financial assets	1,933,958	391,714
Clearing settlement funds	3,023,370	1,147,448
Cash held on behalf of brokerage clients	58,947,013	65,303,548
Bank balances	28,200,401	27,025,936
Total maximum credit risk exposure	293,684,776	302,146,679

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognised as follows according to the stage of ECL:

	As at 31 December 2018			
	12-month ECL	Lifetime ECL- not credit impaired	Lifetime ECL- credit impaired	Total
Impairment and loss allowance				
Bank balances	1,347	—	—	1,347
Margin accounts receivable	83,166	15,513	19,674	118,353
Financial assets held under resale agreements	61,656	33,593	451,744	546,993
Accounts receivable	—	17,890	—	17,890
Debt investment measured at amortised cost	6,066	—	—	6,066
Financial assets at fair value through other comprehensive income	449	—	—	449
Other receivables and prepayments	—	28,061	756,401	784,462
Total	152,684	95,057	1,227,819	1,475,560

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management (continued)

(a) Credit risk (continued)

(ii) Risk concentrations

The Group's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical area:

	By geographical area		
	Mainland China	Outside Mainland China	Total
<u>31 December 2018</u>			
Debt investment at amortised cost	14,677,952	1,596,212	16,274,164
Refundable deposits	7,704,803	131,703	7,836,506
Accounts receivable	2,319,902	770,263	3,090,165
Other receivables and prepayments	454,639	117,870	572,509
Margin accounts receivable	45,387,683	801,202	46,188,885
Financial assets at fair value through other comprehensive income	—	606,809	606,809
Financial assets held under resale agreements	43,125,313	431,252	43,556,565
Financial assets at fair value through profit or loss	79,796,456	3,657,975	83,454,431
Derivative financial assets	1,689,781	244,177	1,933,958
Clearing settlement funds	3,023,370	—	3,023,370
Cash held on behalf of brokerage clients	57,760,803	1,186,210	58,947,013
Bank balances	24,244,112	3,956,289	28,200,401
Total maximum credit risk exposure	<u>280,184,814</u>	<u>13,499,962</u>	<u>293,684,776</u>
<u>31 December 2017</u>			
Held-to-maturity investments	—	—	—
Refundable deposits	7,282,060	20,225	7,302,285
Accounts receivable	1,310,968	669,369	1,980,337
Other receivables and prepayments	5,639,939	234,726	5,874,665
Margin accounts receivable	59,446,149	545,305	59,991,454
Available-for-sale financial assets	14,588,030	523,907	15,111,937
Financial assets held under resale agreements	61,701,827	103,488	61,805,315
Financial assets at fair value through profit or loss	52,649,484	3,562,556	56,212,040
Derivative financial assets	362,787	28,927	391,714
Clearing settlement funds	1,144,099	3,349	1,147,448
Cash held on behalf of brokerage clients	64,580,719	722,829	65,303,548
Bank balances	26,033,443	992,493	27,025,936
Total maximum credit risk exposure	<u>294,739,505</u>	<u>7,407,174</u>	<u>302,146,679</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***59 Financial instruments and risk management (continued)****(a) Credit risk (continued)****(iii) Credit rating analysis of financial assets**

The Group adopts credit rating method to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referred from major rating institutions in which debt issuers located. The carrying amounts of debt securities at the end of the reporting period are categorised by rating distribution as follows:

	As at 31 December	
	2018	2017
Rating		
—AAA	39,834,929	22,224,921
—From A to AA+	16,303,374	16,930,027
—A-1	4,198,680	1,839,755
—C	110,195	3,822
Sub-total	<u>60,447,178</u>	<u>40,998,525</u>
Non-rated ⁽¹⁾	<u>37,322,568</u>	<u>29,153,471</u>
Total	<u>97,769,746</u>	<u>70,151,996</u>

(1) Non-rated financial assets mainly represent debts instruments issued by the Ministry of Finance of the People's Republic of China, the PBOC, and policy banks, which are creditworthy issuers in the market, private bonds and trading securities, which are not rated by independent rating agencies.

(b) Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes: (1) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small; (2) funding liquidity of being unable to meet financial obligations when they come due.

(Expressed in thousands of Renminbi, unless otherwise stated)

(b) Liquidity risk (continued)

As at 31 December 2018

	Carrying amount	Overdue/ repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Undated	Total
Financial Liabilities									
Short-term bank loans	3,015,791	—	165,261	2,867,724	—	—	—	—	3,032,985
Short-term debt instruments issued	21,124,000	—	6,515,309	3,482,311	11,303,298	—	—	—	21,300,918
Placements from other financial institutions	5,813,487	—	2,253,743	1,538,145	2,092,280	—	—	—	5,884,168
Accounts payable to brokerage clients	59,492,176	59,492,176	—	—	—	—	—	—	59,492,176
Other payables and accruals	53,230,787	50,987,984	1,119,981	172,822	950,000	—	—	—	53,230,787
Financial assets sold under repurchase agreements	40,095,054	—	33,068,056	1,230,345	6,120,944	—	—	—	40,419,345
Derivative financial liabilities	776,102	—	50,956	56,894	619,985	48,267	—	—	776,102
Financial liabilities at fair value through profit or loss	5,199,989	1,438,580	1,436,991	—	—	888,070	1,437,335	—	5,200,976
Long-term bonds	62,890,730	—	—	3,154,579	23,754,207	40,974,348	—	—	67,883,134
Long-term bank loans	1,698,769	—	—	31,974	94,539	482,426	1,450,108	—	2,059,047
Total	253,336,885	111,918,740	44,610,297	12,534,794	44,935,253	42,393,111	2,887,443	—	259,279,638

(Expressed in thousands of Renminbi, unless otherwise stated)

(b) Liquidity risk (continued)

(c) Market risk

(i) Interest rate risk

F-231

(Expressed in thousands of Renminbi, unless otherwise stated)

(c) *Market risk (continued)*

The Group mainly manages interest rate risk through structuring and adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risks and improving profitability by diversification of assets.

The following tables indicate the assets and liabilities as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	As at 31 December 2018				
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
					Non-interest bearing
					Total
Financial assets					
Debt investment at amortised cost	299,288	159,205	1,777,739	13,530,981	199,210
Financial assets at fair value through other comprehensive income	—	—	358,361	248,449	—
Financial assets held under resale agreements	19,984,424	3,594,991	16,410,689	2,764,113	—
Refundable deposits	3,168,917	—	—	—	—
Accounts receivable	—	—	—	—	—
Other receivables and prepayments	—	—	—	—	—
Margin accounts receivable	3,360,103	8,505,794	31,384,584	—	—
Financial assets at fair value through profit or loss	3,629,269	7,412,947	29,766,437	37,086,608	3,692,291
Derivative financial assets	1,739	—	—	—	—
Clearing settlement funds	3,023,296	—	—	—	—
Cash held on behalf of brokerage clients	58,836,552	—	—	—	—
Cash and bank balances	22,387,334	4,021,331	1,586,441	—	—
Total	114,690,922	23,694,268	81,284,251	53,630,151	3,891,501
					65,133,742
					342,324,835

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	As at 31 December 2018					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing
Financial liabilities						
Short-term bank loans	(163,877)	(2,836,073)	—	—	—	(15,841)
Short-term debt instruments issued	(6,494,544)	(3,431,230)	(11,022,776)	—	—	(175,450)
Placements from other financial institutions	(2,250,000)	(1,500,000)	(1,968,407)	—	—	(95,080)
Accounts payable to brokerage clients	(59,492,176)	—	—	—	—	—
Other payables and accruals	—	—	—	—	—	(53,230,787)
Financial assets sold under repurchase agreements	(32,878,970)	(1,161,319)	(5,990,074)	—	—	(64,691)
Derivative financial liabilities	(1,129)	—	—	—	—	(774,973)
Financial liabilities at fair value through profit or loss	(1,423,000)	—	—	—	—	(3,776,989)
Long-term bonds	—	(3,000,000)	(21,418,737)	(37,285,873)	—	(1,186,120)
Long-term bank loans	—	(15,820)	—	—	(1,682,949)	—
Total	(102,703,696)	(11,944,442)	(40,399,994)	(37,285,873)	(1,682,949)	(59,319,931)
Net interest rate risk exposure	11,987,226	11,749,826	40,884,257	16,344,278	2,208,552	5,813,811
						88,987,950

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	As at 31 December 2017					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing
						Total
Financial assets						
Held-to-maturity investments	—	—	—	—	—	—
Available-for-sale financial assets	402,803	1,157,260	2,291,058	10,990,383	264,841	29,476,823
Financial assets held under resale agreements	13,483,775	6,410,616	33,486,620	8,424,304	—	—
Refundable deposits	7,302,285	—	—	—	—	—
Accounts receivable	—	—	—	—	—	1,980,337
Other receivables and prepayments	—	—	—	—	—	243,684
Margin accounts receivable	2,840,227	11,280,123	45,871,104	—	—	59,991,454
Financial assets at fair value through profit or loss	4,529,394	3,530,753	15,076,705	28,753,635	4,321,554	84,550,422
Derivative financial assets	2,691	—	—	—	—	389,023
Clearing settlement funds	1,147,448	—	—	—	—	1,147,448
Cash held on behalf of brokerage clients	65,303,548	—	—	—	—	65,303,548
Cash and bank balances	9,792,912	7,150,000	10,083,024	—	—	194
Total	104,805,083	29,528,752	106,808,511	48,168,322	4,586,395	60,428,442
						354,325,505

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	As at 31 December 2017					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing
						Total
Financial liabilities						
Short-term bank loans	—	—	—	—	—	—
Short-term debt instruments issued	(1,684,690)	(6,983,030)	(17,988,290)	—	—	(26,656,010)
Placements from other financial institutions	(500,000)	(3,500,000)	(3,029,998)	—	—	(7,029,998)
Accounts payable to brokerage clients	(67,335,545)	—	—	—	—	(67,335,545)
Other payables and accruals	—	—	—	—	—	(59,662,972)
Financial assets sold under repurchase agreements	(22,421,537)	—	(1,500,000)	(1,000,000)	—	(24,921,537)
Derivative financial liabilities	(6,372)	—	—	—	—	(1,635,911)
Financial liabilities at fair value through profit or loss	(99,139)	(80,535)	(11,616,150)	—	—	(2,585,504)
Long-term bonds	—	—	(21,597,480)	(49,608,478)	(5,992,318)	(77,198,276)
Total	(92,047,283)	(10,563,565)	(55,731,918)	(50,608,478)	(5,992,318)	(63,884,387)
Net interest rate risk exposure	12,757,800	18,965,187	51,076,593	(2,440,156)	(1,405,923)	75,497,556

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***59 Financial instruments and risk management (continued)****(c) Market risk (continued)****(i) Interest rate risk (continued)****Sensitivity analysis**

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net profit and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit	
	As at 31 December	
	2018	2017
Move in yield curve		
Up 100 basis points	(704,860)	(601,891)
Down 100 basis points	726,215	625,927
	Sensitivity of equity	
	As at 31 December	
	2018	2017
Move in yield curve		
Up 100 basis points	(704,860)	(822,556)
Down 100 basis points	726,215	856,034

The sensitivity analysis above indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(ii) Currency risk

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation of foreign exchange rates. The Group adopts sensitivity analysis to measure currency risk.

Assuming all other risk variables remained constant and without consideration of risk management measures undertaken by the Group, a 10% strengthening of the RMB against the US dollar ("USD") and HKD at the reporting date would have increased/ (decreased) the Group's equity and net profit by the amount shown below, whose effect is in RMB and translated using the spot rate at the reporting date:

Currency	Sensitivity of net profit	
	As at 31 December	
	2018	2017
USD	(437,566)	(483,209)
HKD	(214,459)	(218,579)

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***59 Financial instruments and risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

<u>Currency</u>	<u>Sensitivity of equity</u>	
	<u>As at 31 December</u>	
	<u>2018</u>	<u>2017</u>
USD	(465,640)	(541,162)
HKD	(237,053)	(219,299)

A 10% weakening of the RMB against the USD and HKD at balance date would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

Due to the above assumptions, the result of sensitivity analysis on exchange rate changes may be different, compared with the actual changes in the Group's net profit and equity of may arise with this.

(iii) Price risk

The Group is exposed to equity price changes arising from equity investments concluded in financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income. Price risk the Group facing is mainly the proportionate fluctuation in the Group's net profits due to the price fluctuation of the financial instruments at fair value through profit or loss and the proportionate fluctuation in the Group's equity due to the price fluctuation of the financial instruments measured at fair value.

Sensitivity analysis

The analysis below is performed to show the impact on Group's net profit and equity due to change in the prices of equity securities by 10% with all other variables held constant.

	<u>Sensitivity of net profit</u>	
	<u>As at 31 December</u>	
	<u>2018</u>	<u>2017</u>
Increase by 10%	2,347,521	897,230
Decrease by 10%	(2,347,521)	(897,230)

	<u>Sensitivity of equity</u>	
	<u>As at 31 December</u>	
	<u>2018</u>	<u>2017</u>
Increase by 10%	3,086,266	3,109,511
Decrease by 10%	(3,086,266)	(3,109,511)

The sensitivity analysis indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management (continued)

(c) Market risk (continued)

(iii) Price risk (continued)

fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2018 and 2017.

(d) Capital management

The Group's objectives of capital management are:

- (i) To safeguard the Group's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's stability and growth;
- (iii) To maintain a strong capital base to support the development of their business; and
- (iv) To comply with the capital requirements under the PRC, Hong Kong and the United States regulations.

As at 16 June 2016, Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Revised Administrative Measures") and Calculation Standard for Risk Control Indicators of Securities Companies were issued by the CSRC. The Company is required to meet the following standards for risk control indicators on a continual basis from 1 October 2016:

- (i) The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
- (ii) The ratio of net capital divided by net assets shall be no less than 20% ("Ratio 2");
- (iii) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");
- (iv) The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio 4");
- (v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5");
- (vi) The ratio of the value of non-equity securities and derivatives held divided by net capital shall not exceed 500% ("Ratio 6");
- (vii) The ratio of core net capital divided by on balance sheet and off balance sheet assets shall be no less than 8% ("Ratio 7");
- (viii) The ratio of high quality liquidity assets divided by net cash outflows for the next 30 days shall be no less than 100% ("Ratio 8");
- (ix) The ratio of available stable funds divided by required stable funds shall be no less than 100% ("Ratio 9"); and
- (x) The ratio of margin financing (including securities lending) divided by net capital shall not exceed 400% ("Ratio 10").

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***59 Financial instruments and risk management (continued)****(d) Capital management (continued)**

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Revised Administrative Measures.

As at 31 December 2018 and 31 December 2017, the Company maintained net capital and the above ratios as follows:

	Year ended 31 December	
	2018	2017
Net Capital	59,559,868	46,742,933
Ratio 1	281.90%	193.75%
Ratio 2	62.83%	59.41%
Ratio 3	44.32%	29.75%
Ratio 4	70.54%	50.08%
Ratio 5	30.10%	60.50%
Ratio 6	139.03%	108.16%
Ratio 7	24.57%	19.05%
Ratio 8	648.34%	619.25%
Ratio 9	140.95%	130.39%
Ratio 10	123.60%	220.53%

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements under the Mainland China, Hong Kong and the United States regulatory requirements, respectively. These subsidiaries comply with the capital requirements during the years ended 31 December 2018 and 31 December 2017.

(e) Transfer of financial assets

The Group transferred financial assets to certain counterparties through repurchase agreements, securities lending and asset-backed securities scheme. These securities, margin accounts receivable and securities-backed lending are not derecognised from the consolidated statement of financial position because the Group retains substantially all the risks and rewards of these securities, margin loans and securities-backed lending.

The Group entered into repurchase agreements with certain counterparties to sell debt securities classified as financial assets at fair value through profit or loss, debt investment at amortised cost, margin accounts receivable and financial assets held under resale agreements. Sales and repurchase agreements are transactions in which the Group sell a security, rights and interests in a margin accounts receivable or securities-backed lending and agree to repurchase it at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests sold. These securities, margin accounts receivable and financial assets held under resale agreements are not derecognised from the consolidated statement of financial position because the Group retains substantially all the risks and rewards of these financial assets.

The Group entered into securities lending agreements with clients to lend out its equity securities and exchange-traded funds classified as financial assets at fair value through profit or loss. As stipulated in the securities lending agreements, the legal ownership of these equity securities and

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 Financial instruments and risk management (continued)

(e) Transfer of financial assets (continued)

exchange-traded funds is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised these securities in the consolidated statement of financial position.

The Group sells margin accounts receivable to the securitisation vehicle, which in turn issue asset-backed securities to investors with the purchased assets as the underlying assets. Such securitisation vehicle is consolidated by the Group, consequently the underlying assets are transferred from the Group to the investors. The Group has the obligation to pass cash flows from the underlying assets to the investors.

The cash flows that the securitisation vehicle collect from the transferred assets has not been passed through to investors without material delay, and the Group has the obligation to repurchase these margin accounts receivable on specified future dates and at agreed-upon prices. Thus the Group has not derecognised these financial assets in the consolidated statements of financial position. The consideration received from the investors is recognised as a financial liability.

The following tables provide a summary of carrying amounts and fair values of the transferred financial assets that are not derecognised in their entirety and the associated liabilities:

As at 31 December 2018

	Financial assets at fair value through profit or loss		Margin accounts receivable		Total
	Sales and repurchase agreements	Securities lending	Margin loans receivable backed repurchase	Asset- backed securities	
Carrying amount of transferred assets	1,864,902	1,168,461	1,650,302	1,077,838	5,761,503
Carrying amount of associated liabilities	(1,714,862)	—	(1,000,000)	(950,000)	(3,664,862)
Net position	<u>150,040</u>	<u>1,168,461</u>	<u>650,302</u>	<u>127,838</u>	<u>2,096,641</u>

As at 31 December 2017

	Financial assets at fair value through profit or loss		Available-for-sale financial assets	Margin accounts receivable	Financial assets held under resale agreements	Total
	Sales and repurchase agreements	Securities lending	Securities lending	Margin loans receivable backed repurchase	Securities -backed lending	
Carrying amount of transferred assets	—	—	5,592	2,716,389	—	2,721,981
Carrying amount of associated liabilities	—	—	—	(2,500,000)	—	(2,500,000)
Net position	<u>—</u>	<u>—</u>	<u>5,592</u>	<u>216,389</u>	<u>—</u>	<u>221,981</u>

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***60 Fair value information****(a) Fair value of financial instruments**

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held on behalf of brokerage clients, clearing settlement funds, financial assets held under resale agreements, current debt investment at amortised cost and financial liabilities including placements from other financial institutions, short-term debt instruments issued, short-term bank loans and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate the fair values.
- (ii) Financial instruments at fair value through profit or loss, derivatives and financial assets at fair value through other comprehensive income are stated at fair value. For the financial instruments traded in active open markets, the Group uses market prices or market rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.
- (iii) The fair values of non-current debt investment at amortised cost investments and long-term bonds are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as credit risk and maturity, to estimate the fair values using pricing models or discounted cash flow.
- (iv) Accounts receivable, margin accounts receivable, and accounts payable to brokerage clients are within one year. Accordingly, the carrying amounts approximate the fair values.

(b) Fair value of other financial instruments (carried at other than fair value)

The carrying amount and fair value of debt investment at amortised cost, short-term debt instruments issued and long-term bonds which are not presented at fair value are listed as below:

Carrying amount

	As at 31 December	
	2018	2017
<i>Financial assets</i>		
—Debt investment at amortised cost	16,274,164	—
Total	16,274,164	—
<i>Financial liabilities</i>		
—Short-term debt instruments issued	(21,124,000)	(26,656,010)
—Long-term bonds	(62,890,730)	(77,198,276)
Total	(84,014,730)	(103,854,286)

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 Fair value information (continued)

(b) Fair value of other financial instruments (carried at other than fair value) (continued)

Fair value

		2018			
		Level I	Level II	Level III	Total
<i>Financial assets</i>					
—Debt investment at amortised cost		8,838,870	6,814,493	790,388	16,443,751
Total		<u>8,838,870</u>	<u>6,814,493</u>	<u>790,388</u>	<u>16,443,751</u>
<i>Financial liabilities</i>					
—Short-term debt instruments issued		4,726,656	—	16,396,082	21,122,738
—Long-term bonds		<u>58,359,085</u>	—	<u>4,382,589</u>	<u>62,741,674</u>
Total		<u>63,085,741</u>	—	<u>20,778,671</u>	<u>83,864,412</u>
		2017			
		Level I	Level II	Level III	Total
<i>Financial assets</i>					
—Held-to-maturity investments		—	—	—	—
Total		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Financial liabilities</i>					
—Short-term debt instruments issued		—	—	26,656,010	26,656,010
—Long-term bonds		<u>73,824,987</u>	—	<u>3,000,000</u>	<u>76,824,987</u>
Total		<u>73,824,987</u>	—	<u>29,656,010</u>	<u>103,480,997</u>

The fair values of the financial assets and financial liabilities included in the level II and III categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost less impairment in the Group's consolidated statements of financial position approximate their fair values.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 Fair value information (continued)

(c) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	As at 31 December 2018			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
—Debt securities	49,282,012	32,465,985	537,973	82,285,970
—Equity securities	6,614,477	685,014	3,072,924	10,372,415
—Funds	22,345,570	432,345	—	22,777,915
—Wealth management products	—	5,385,666	1,422,366	6,808,032
Financial assets at fair value through other comprehensive income				
—Equity securities	—	9,767,639	82,294	9,849,933
—Other investments	—	—	606,810	606,810
Derivative financial assets	16,646	338,702	1,578,610	1,933,958
Total	<u>78,258,705</u>	<u>49,075,351</u>	<u>7,300,977</u>	<u>134,635,033</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
—Financial liabilities held for trading	(1,436,332)	(1,376,525)	—	(2,812,857)
—Financial liabilities designated at fair value through profit or loss	—	(61,727)	(2,325,405)	(2,387,132)
Derivative financial liabilities	(13,515)	(441,034)	(321,553)	(776,102)
Total	<u>(1,449,847)</u>	<u>(1,879,286)</u>	<u>(2,646,958)</u>	<u>(5,976,091)</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 Fair value information (continued)

(c) Fair value hierarchy (continued)

	2017			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
—Debt securities	25,688,578	29,357,072	—	55,045,650
—Equity securities	6,561,929	1,082,457	—	7,644,386
—Funds	17,069,017	391,211	—	17,460,228
—Wealth management products	468,364	1,018,696	1,116,430	2,603,490
Financial assets designated at fair value through profit or loss				
—Equity securities	—	1,796,667	—	1,796,667
Available-for-sale financial assets				
—Debt securities	11,068,223	3,992,891	45,231	15,106,345
—Equity securities	9,312,807	1,140,727	6,548,624	17,002,158
—Funds	124,338	42,142	—	166,480
—Wealth management products	—	12,308,185	—	12,308,185
Derivative financial assets	37,490	99,623	254,601	391,714
Total	<u>70,330,746</u>	<u>51,229,671</u>	<u>7,964,886</u>	<u>129,525,303</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading	(11,818,892)	(88,445)	—	(11,907,337)
Financial liabilities designated at fair value through profit or loss	—	(128,324)	(2,345,668)	(2,473,992)
Derivative financial liabilities	(29,537)	(1,386,261)	(226,485)	(1,642,283)
Total	<u>(11,848,429)</u>	<u>(1,603,030)</u>	<u>(2,572,153)</u>	<u>(16,023,612)</u>

For the year ended 31 December 2018, there was a transfer of amount RMB126,000 thousand from Level II to Level I due to its lifting of restricted stocks. There was a transfer of amount RMB106,947 thousand from Level II to Level III due to the delisting of equity securities. There was a transfer of amount RMB529,291 thousand from Level III to Level II due to the listing of equity securities with lock-up period.

For the year ended 31 December 2017, there was a transfer of amount RMB623,245 thousand from Level I to Level II due to its active trading as at 31 December 2016 while suspended from trading as at 31 December 2017. For the year ended, there were no significant transfer between Level II and Level III of the fair value hierarchy.

(i) Financial instruments in Level I

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

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 Fair value information (continued)

(c) Fair value hierarchy (continued)

(i) Financial instruments in Level I (continued)

closing price within bid-ask spread. These instruments are included in Level I. Instruments included in Level I comprise primarily securities traded on the stock exchanges and funds with quoted bid prices in an active market, which are classified as financial instruments at fair value through profit or loss.

(ii) Financial instruments in Level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise 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 II.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level III.

(iii) Valuation methods for specific investments

As at 31 December 2018 and 31 December 2017, 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. For those which has no quoted market price or those with lock-up periods as at the reporting date, valuation techniques are used to determine the fair value.
- (2) For exchange-listed 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-end funds and wealth 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, fair values are determined based on the closing price within bid-ask spread of the debt securities at the date of statements of financial position.
- (4) For debt securities traded through the inter-bank bond market and OTC market, fair values are determined using valuation techniques.
- (5) For unlisted equity securities, wealth management products without quoted bid price in an active market, gold leasing and derivative financial instruments, fair value is determined using valuation techniques.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 Fair value information (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Financial assets at fair value through other comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 31 December 2017	1,116,430	6,593,855	—	254,601	(2,345,668)	(226,485)	5,392,733
Impact on initial application of IFRS 9	6,527,861	(6,593,855)	65,994	—	—	—	—
As at 1 January 2018	7,644,291	—	65,994	254,601	(2,345,668)	(226,485)	5,392,733
Gains or losses for the year	993,427	—	(449)	2,647,285	185,887	364,538	4,190,688
Changes in fair value recognised in other comprehensive income	—	—	38,344	—	—	—	38,344
Purchases	2,347,484	—	585,215	176,691	—	(213,465)	2,895,925
Sales and settlements	(5,951,939)	—	—	(1,499,967)	(165,624)	(246,141)	(7,863,671)
As at 31 December 2018	5,033,263	—	689,104	1,578,610	(2,325,405)	(321,553)	4,654,019
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	846,789	—	—	1,264,360	185,887	82,845	2,379,881

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

60 Fair value information (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III (continued)

	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 1 January 2017	731,430	10,654,925	20,242	(11,440,911)	(10,409)	(44,723)
Gains or losses for the year	39,646	2,599	273,157	419,540	(159,084)	575,858
Changes in fair value recognised in other comprehensive income	—	(856,525)	—	—	—	(856,525)
Purchases	385,000	4,400,136	10,238	—	(45,394)	4,749,980
Sales and settlements	(39,646)	(7,607,280)	(49,036)	8,675,703	(11,598)	968,143
As at 31 December 2017	1,116,430	6,593,855	254,601	(2,345,668)	(226,485)	5,392,733
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	—	—	239,690	419,540	(176,003)	483,227

Notes to the Financial Statements (continued)*(Expressed in thousands of Renminbi, unless otherwise stated)***60 Fair value information (continued)****(c) Fair value hierarchy (continued)****(iv) Financial instruments in Level III (continued)**

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III 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 III.

<u>Financial assets and liabilities</u>	<u>Fair value hierarchy</u>	<u>Valuation technique(s) and key input(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Wealth management products and private placement bonds	Level III	Discounted cash flow model	Risk adjusted discount rate	The higher the risk adjusted discount rate, the lower the fair value
Unlisted equity investment	Level III	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value
Financial liabilities arising from consolidation of private equity funds	Level III	Market comparable companies of the underlying portfolios	Discount for lack of marketability	The higher the discount, the lower the fair value
Over-the-counter options	Level III	Black-Scholes option pricing model	Price volatility of underlying assets	The higher the price volatility, the greater the impact on the fair value
		Monte-Carlo option pricing model	Price volatility of underlying assets	The higher the price volatility, the greater the impact on the fair value

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

61 Company-level statement of financial position

	Note	As at 31 December	
		2018	2017
Non-current assets			
Property and equipment		2,493,036	2,594,595
Investment properties		1,426,028	1,742,738
Other intangible assets		526,963	429,142
Investments in subsidiaries		18,174,962	17,661,632
Interest in associates		8,262,252	7,511,414
Debt investment at amortised cost		12,452,909	—
Financial assets at fair value through other comprehensive income		9,820,333	—
Available-for-sale financial assets		—	23,739,044
Financial assets held under resale agreements		2,452,201	8,059,703
Financial assets at fair value through profit or loss		1,024,322	1,796,667
Refundable deposits		2,669,163	1,435,529
Other non-current assets		233,830	63,118
Total non-current assets		<u>59,535,999</u>	<u>65,033,582</u>
Current assets			
Accounts receivable		1,609,777	678,545
Other receivables and prepayments		970,047	4,612,915
Margin accounts receivable		45,387,683	59,446,149
Debt investment at amortised cost		2,225,043	—
Available-for-sale financial assets		—	12,314,388
Financial assets held under resale agreements		32,276,961	43,660,746
Financial assets at fair value through profit or loss		70,389,642	37,487,496
Derivative financial assets		1,663,164	349,248
Clearing settlement funds		4,220,923	2,343,723
Cash held on behalf of brokerage clients		47,799,466	50,091,944
Cash and bank balances		10,652,460	9,585,562
Total current assets		<u>217,195,166</u>	<u>220,570,716</u>
Total assets		<u>276,731,165</u>	<u>285,604,298</u>

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

61 Company-level statement of financial position (continued)

	Note	As at 31 December	
		2018	2017
Current liabilities			
Short-term debt instruments issued		20,927,044	26,656,010
Placements from other financial institutions		5,813,487	7,029,998
Accounts payable to brokerage clients		44,673,270	48,862,822
Employee benefits payable		1,178,952	1,403,619
Other payables and accruals		7,230,663	8,213,316
Financial assets sold under repurchase agreements		34,794,769	20,114,159
Financial liabilities at fair value through profit or loss		1,436,005	11,795,824
Derivative financial liabilities		603,695	1,601,480
Long-term banks loans due within one year		—	—
Long-term bonds due within one year		22,077,210	21,597,480
Total current liabilities		<u>138,735,095</u>	<u>147,274,708</u>
Net current assets		<u>78,460,071</u>	<u>73,296,008</u>
Total assets less current liabilities		<u>137,996,070</u>	<u>138,329,590</u>
Non-current liabilities			
Long-term bonds		38,046,114	52,992,318
Non-current employee benefits payable		4,572,503	5,151,000
Deferred tax liabilities		580,365	503,471
Financial assets sold under repurchase agreements		—	1,000,000
Total non-current liabilities		<u>43,198,982</u>	<u>59,646,789</u>
Net assets		<u>94,797,088</u>	<u>78,682,801</u>
Equity			
Share capital	53(a)	8,251,500	7,162,769
Reserves		72,065,053	58,568,671
Retained profits		14,480,535	12,951,361
Total equity		<u>94,797,088</u>	<u>78,682,801</u>

Approved and authorised for issue by the board of directors on 11 June 2019.

Zhou Yi	Chen Chuanming
Chairman of the Board, Executive director and President	Director

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

62 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of the financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, Leases	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 19, Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021

Except as described below, the application of the new and revised IFRS will have no material impact on the Group's financial statements.

IFRS 16, Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

When IFRS 16 is adopted in the future, it is expected that certain portion of lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

62 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (continued)

IFRS 16, Leases (continued)

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 54, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to about RMB832 million for assets, the majority of which is payable either between 1 and 5 years after the reporting date.

Other than the recognition of lease liabilities and right-of-use assets, the Group does not expect the adoption of IFRS 16 would result in a significant impact on the Group's equity.

63 Events after the reporting date

(a) Issuance of bonds

On 19 March 2019, the Company has publicly issued 3-year corporate bond with a nominal amount of RMB7 billion, bearing interest at 3.68% to qualified investors.

On 22 April 2019, the Company has publicly issued 3-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.80% to qualified investors.

On 25 April 2019, the Company has issued short-term debt instruments of RMB3 billion, bearing interest at 3.00%.

On 23 May 2019, the Company's subsidiary Pioneer Reward Limited has publicly issued 3-year United States dollar denominated bond which were unconditionally and irrevocably guaranteed by the Company, with a nominal amount of USD500 million and bearing interest at 3.375%.

On 27 May 2019, the Company has non-publicly issued a 3-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.94% to qualified investors.

Notes to the Financial Statements (continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

63 Events after the reporting date (continued)

(b) Profit distribution plan after accounting periods

On 5 June 2019, the Board amended the previous dividend distribution plan and re-proposed the cash dividends of RMB3.00 (tax inclusive) per 10 ordinary shares distributed to holders of A Shares and H Shares whose names appear on the register of members of the Company as of the record date. The aggregate amount of cash dividends to be distributed will be determined based on the number of total ordinary shares (including the Global Depository Receipts representing A shares that the Company plans to issue) as of the record date, which will be decided and approved by the Company separately.

The proposal is pending for the approval of the general meeting of the shareholders. The cash dividends are not recognised as a liability as at 31 December 2018.

Report on review of interim financial report

To the board of directors of Huatai Securities Co., Ltd.

Introduction

We have reviewed the accompanying interim financial report set out on page F-255 to F-324, which comprises the condensed consolidated statements of financial position of Huatai Securities Co., Ltd. (the “Company”) and its subsidiaries (collectively the “Group”) as at 31 March 2019 and the related condensed consolidated income statements, condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flow statements for the three-month period then ended and explanatory notes. The directors are responsible for the preparation and presentation of interim financial report in accordance with International Accounting Standards 34, “Interim Financial Reporting” (“IAS 34”), issued by the International Accounting Standards Board.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Accounting Standards Board. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial report is not prepared, in all material respects, in accordance with IAS 34.

KPMG Huazhen LLP

Certified Public Accountants

8th Floor, KPMG Tower
Oriental Plaza
1 East Chang An Avenue
Beijing
China

11 June 2019

Unaudited condensed consolidated income statements
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Three months ended 31 March	
		2019	2018 (Note)
Revenue			
Fee and commission income	4	3,047,263	2,671,468
Interest income	5	1,879,322	2,467,116
Net investment gains	6	2,209,251	953,385
Total revenue		<u>7,135,836</u>	<u>6,091,969</u>
Other income and gains	7	213,208	190,079
Total revenue and other income		<u>7,349,044</u>	<u>6,282,048</u>
Fee and commission expenses	8	(905,584)	(680,924)
Interest expenses	9	(1,376,135)	(1,733,124)
Staff costs	10	(1,636,726)	(1,326,785)
Depreciation and amortisation expenses	11	(268,574)	(145,281)
Tax and surcharges	12	(39,563)	(33,354)
Other operating expenses	13	(650,624)	(544,796)
Net (provision for) / reversal of impairment loss on financial assets	14	(21,850)	48,007
Net reversal of / (provision for) impairment loss on other assets		2,488	(769)
Total expenses		<u>(4,896,568)</u>	<u>(4,417,026)</u>
Operating profit		<u>2,452,476</u>	<u>1,865,022</u>
Share of profit of associates and joint ventures		1,025,144	600,915
Profit before income tax		<u>3,477,620</u>	<u>2,465,937</u>
Income tax expense	15	(839,395)	(494,632)
Profit for the period		<u>2,638,225</u>	<u>1,971,305</u>
Attributable to:			
Shareholders of the Company		2,613,058	1,953,739
Non-controlling interests		25,167	17,566
		<u>2,638,225</u>	<u>1,971,305</u>
Basic and diluted earnings per share (in Renminbi per share)	16	<u>0.32</u>	<u>0.27</u>

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages F-262 to F-324 form part of this interim financial report.

**Unaudited condensed consolidated statements of profit or loss and other comprehensive income
For the three months ended 31 March 2019**

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Three months ended 31 March	
		2019	2018 (Note)
Profit for the period		<u>2,638,225</u>	<u>1,971,305</u>
Other comprehensive income for the period			
Items that will not be reclassified to profit or loss:			
Equity investment at fair value through other comprehensive income			
—Net change in fair value		767,752	(4,534)
Income tax impact		(191,937)	1,134
Items that may be reclassified subsequently to profit or loss:			
Net gain from debt investment at fair value through other comprehensive income		19,798	—
Share of other comprehensive income of associates and joint ventures		116,292	(1,150)
Exchange differences on translation of financial statements in foreign currencies		(169,810)	(289,638)
Total other comprehensive income for the period, net of tax		<u>542,095</u>	<u>(294,188)</u>
Total comprehensive income for the period		<u>3,180,320</u>	<u>1,677,117</u>
Attributable to:			
Shareholders of the Company		3,153,305	1,659,602
Non-controlling interests		27,015	17,515
Total		<u>3,180,320</u>	<u>1,677,117</u>

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages F-262 to F-324 form part of this interim financial report.

Unaudited condensed consolidated statements of financial position
As at 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

		As at 31 March 2019	As at 31 December 2018
	Note		(Note)
Non-current assets			
Property and equipment	17	4,280,260	3,548,153
Investment properties		580,468	586,334
Goodwill	18	2,057,422	2,099,412
Other intangible assets	19	5,327,979	5,462,012
Interest in associates	20	13,464,277	12,527,828
Interest in joint ventures	21	651,792	649,833
Debt investment at amortised cost	22	14,199,080	13,854,878
Financial assets at fair value through other comprehensive income	23	10,917,072	10,098,382
Financial assets held under resale agreements		458,695	2,812,194
Financial assets at fair value through profit or loss	24	5,148,062	5,155,176
Refundable deposits	25	8,574,109	7,836,506
Deferred tax assets	26	189,014	225,135
Other non-current assets	27	248,245	259,751
Total non-current assets		<u>66,096,475</u>	<u>65,115,594</u>
Current assets			
Accounts receivable	28	5,197,103	3,090,165
Other receivables and prepayments	29	1,158,325	1,555,090
Margin accounts receivable	30	57,933,520	46,188,885
Debt investment at amortised cost	22	2,554,348	2,419,286
Financial assets held under resale agreements		42,663,289	40,744,371
Financial assets at fair value through profit or loss	24	145,012,470	117,089,156
Financial assets at fair value through other comprehensive income	23	471,410	358,361
Derivative financial assets	31	948,145	1,933,958
Clearing settlement funds	32	2,089,949	3,023,370
Cash held on behalf of brokerage clients	33	86,062,127	58,947,013
Cash and bank balances	34	35,255,133	28,200,625
Total current assets		<u>379,345,819</u>	<u>303,550,280</u>
Total assets		<u>445,442,294</u>	<u>368,665,874</u>

The notes on pages F-262 to F-324 form part of this interim financial report.

Unaudited condensed consolidated statements of financial position (continued)

As at 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

		As at 31 March 2019	As at 31 December 2018
	Note		(Note)
Current liabilities			
Short-term bank loans	36	1,475,240	3,015,791
Short-term debt instruments issued	37	25,587,385	21,124,000
Placements from other financial institutions	38	3,178,980	5,813,487
Accounts payable to brokerage clients	39	90,133,775	59,492,176
Employee benefits payable		2,657,940	2,869,042
Other payables and accruals	40	75,185,968	53,793,086
Contract liabilities		7,095	7,442
Current tax liabilities		286,356	284,436
Financial assets sold under repurchase agreements		56,375,900	40,095,054
Financial liabilities at fair value through profit or loss	41	1,974,961	2,874,584
Derivative financial liabilities	31	1,854,297	776,102
Long-term bonds due within one year	42	24,819,894	24,844,616
Long-term bank loans due within one year	44	16,876	15,820
Total current liabilities		<u>283,554,667</u>	<u>215,005,636</u>
Net current assets		<u>95,791,152</u>	<u>88,544,644</u>
Total assets less current liabilities		<u>161,887,627</u>	<u>153,660,238</u>
Non-current liabilities			
Long-term bonds	43	42,318,309	38,046,114
Long-term bank loans	45	1,645,404	1,682,949
Non-current employee benefits payable		5,081,555	5,045,990
Deferred tax liabilities	26	2,032,291	1,810,176
Financial liabilities at fair value through profit or loss	41	2,444,640	2,325,405
Other payables and accruals	40	436,152	—
Total non-current liabilities		<u>53,958,351</u>	<u>48,910,634</u>
Net assets		<u>107,929,276</u>	<u>104,749,604</u>
Equity			
Share capital	46	8,251,500	8,251,500
Reserves	47	76,455,671	75,725,973
Retained profits	48	21,839,711	19,416,104
Total equity attributable to shareholders of the Company		106,546,882	103,393,577
Non-controlling interests		1,382,394	1,356,027
Total equity		<u>107,929,276</u>	<u>104,749,604</u>

Approved and authorised for issue by the board of directors on 11 June 2019.

Zhou Yi	Chen Chuanming
Chairman of the Board, Executive director and President	Director

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages F-262 to F-324 form part of this interim financial report.

Unaudited condensed consolidated statements of changes in equity
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Share capital (Note 46)	Capital reserve (Note 47)	Surplus reserve (Note 47)	General reserve (Note 47)	Fair value reserve (Note 47)	Translation reserve (Note 47)	Retained profits (Note 48)			
As at 1 January 2019	8,251,500	58,859,860	4,489,831	12,196,945	(78,451)	257,788	19,416,104	103,393,577	1,356,027	104,749,604
Changes in equity for the period										
Profit for the period	—	—	—	—	—	—	2,613,058	2,613,058	25,167	2,638,225
Other comprehensive income	—	—	—	—	711,905	(171,658)	—	540,247	1,848	542,095
Total comprehensive income	—	—	—	—	711,905	(171,658)	2,613,058	3,153,305	27,015	3,180,320
Appropriation to general reserve	—	—	—	189,451	—	—	(189,451)	—	—	—
Dividends declared for the period	—	—	—	—	—	—	—	—	(648)	(648)
As at 31 March 2019	8,251,500	58,859,860	4,489,831	12,386,396	633,454	86,130	21,839,711	106,546,882	1,382,394	107,929,276
As at 31 December 2017	7,162,769	45,820,627	3,919,488	10,008,183	1,525,650	(77,994)	18,977,215	87,335,938	1,253,974	88,589,912
Impact on initial application of IFRS 9	—	—	34,366	60,799	(715,018)	—	549,914	(69,939)	(151)	(70,090)
Adjusted balance at 1 January 2018	7,162,769	45,820,627	3,953,854	10,068,982	810,632	(77,994)	19,527,129	87,265,999	1,253,823	88,519,822
Changes in equity for the period										
Profit for the period	—	—	—	—	—	—	1,953,739	1,953,739	17,566	1,971,305
Other comprehensive income	—	—	—	—	(4,550)	(289,587)	—	(294,137)	(51)	(294,188)
Total comprehensive income	—	—	—	—	(4,550)	(289,587)	1,953,739	1,659,602	17,515	1,677,117
Acquisition of non-controlling interests without a change in control	—	(3,492)	—	—	—	—	—	(3,492)	(9,839)	(13,331)
Appropriation to general reserve	—	—	—	400	—	—	(400)	—	—	—
Dividends declared for the period	—	—	—	—	—	—	—	—	(12,715)	(12,715)
As at 31 March 2018	7,162,769	45,817,135	3,953,854	10,069,382	806,082	(367,581)	21,480,468	88,922,109	1,248,784	90,170,893
As at 31 December 2017	7,162,769	45,820,627	3,919,488	10,008,183	1,525,650	(77,994)	18,977,215	87,335,938	1,253,974	88,589,912
Impact on initial application of IFRS 9	—	—	34,366	60,799	(715,018)	—	549,914	(69,939)	(151)	(70,090)
Adjusted balance at 1 January 2018	7,162,769	45,820,627	3,953,854	10,068,982	810,632	(77,994)	19,527,129	87,265,999	1,253,823	88,519,822
Changes in equity for the year										
Profit for the year	—	—	—	—	—	—	5,032,738	5,032,738	128,149	5,160,887
Other comprehensive income	—	—	—	—	(889,083)	335,782	—	(553,301)	3,462	(549,839)
Total comprehensive income	—	—	—	—	(889,083)	335,782	5,032,738	4,479,437	131,611	4,611,048
Issuance of A shares	1,088,731	13,044,475	—	—	—	—	—	14,133,206	—	14,133,206
Acquisition of non-controlling interests without a change in control	—	(5,242)	—	—	—	—	(4,373)	(9,615)	(8,696)	(18,311)
Recognition on disposal of subsidiaries	—	—	—	—	—	—	—	—	(7,996)	(7,996)
Appropriation to surplus reserve	—	—	535,977	—	—	—	(535,977)	—	—	—
Appropriation to general reserve	—	—	—	2,127,963	—	—	(2,127,963)	—	—	—
Dividends declared for the year	—	—	—	—	—	—	(2,475,450)	(2,475,450)	(12,715)	(2,488,165)
As at 31 December 2018	8,251,500	58,859,860	4,489,831	12,196,945	(78,451)	257,788	19,416,104	103,393,577	1,356,027	104,749,604

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages F-262 to F-324 form part of this interim financial report.

Unaudited condensed consolidated cash flow statements
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

		Three months ended 31 March	
	Note	2019	2018 (Note)
Cash flows from operating activities:			
Profit before income tax		3,477,620	2,465,937
Adjustments for:			
Interest expenses		1,376,135	1,733,124
Share of profit of associates and joint ventures		(1,025,144)	(600,915)
Depreciation and amortisation expenses		268,574	145,281
Net provision for / (reversal of) impairment loss		19,362	(48,007)
Losses / (gains) on disposal of property and equipment		430	(107)
Foreign exchange losses		1,903	33,636
Interest income from debt investment at amortised cost		(156,357)	(44,013)
Net gains arising from derecognition of debt investment at amortised cost		(980)	—
Unrealised fair value changes in financial instruments through profit or loss		(1,995,937)	(10,176)
Unrealised fair value changes in derivatives		1,281,610	(208,933)
Operating cash flows before movements in working capital		3,247,216	3,465,827
Increase in refundable deposits		(737,603)	(1,092,690)
(Increase) / decrease in margin accounts receivable		(11,726,007)	2,297,920
Increase in accounts receivable, other receivables and prepayments		(1,959,085)	(2,443,845)
Decrease in financial assets held under resale agreements		5,644,185	1,431,085
Increase in financial instruments at fair value through profit or loss		(25,857,030)	(19,410,931)
Decrease / (increase) in restricted bank deposits		1,880,352	(516,610)
(Increase) / decrease in cash held on behalf of brokerage clients		(27,115,114)	1,929,368
Increase in accounts payable to brokerage clients		30,641,599	1,187,546
Increase in other payables and accruals		21,231,034	5,673,793
Decrease in employee benefits payable		(175,538)	(284,134)
Increase in financial assets sold under repurchase agreements		16,280,846	6,009,046
(Decrease) / increase in placements from other financial institutions		(2,634,507)	4,500,000
Cash generated from operations		8,720,348	2,746,375
Income taxes paid		(328,343)	(444,268)
Interest paid		(745,688)	(657,064)
Net cash generated from operating activities		7,646,317	1,645,043

The notes on pages F-262 to F-324 form part of this interim financial report.

Unaudited condensed consolidated cash flow statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

		Three months ended 31 March	
	Note	2019	2018 (Note)
Cash flows from investing activities:			
Proceeds on disposal of property and equipment		1,159	1,714
Dividends received from associates		187,200	—
Interest income from debt investment at amortised cost		156,357	44,013
Net gains arising from derecognition of debt investment at amortised cost		980	—
Payment of other limited partners' interest in private funds		(61,224)	(69,000)
Disinvestments of associates		15,829	38,600
Purchase of property and equipment, investment properties, other intangible assets and other non-current assets		(269,624)	(109,023)
Acquisition of interests in associates and other investments		—	(149,750)
Purchase of debt investment measured at amortised cost		(480,925)	(507,611)
Purchase of financial assets through other comprehensive income		(144,422)	—
Net cash used in investing activities		<u>(594,670)</u>	<u>(751,057)</u>
Cash flows from financing activities:			
Proceeds from issuance of short-term debt instruments		16,375,778	6,213,430
Proceeds from issuance of long-term bonds		7,000,000	1,100,000
Repayment of bank loans		(3,016,783)	—
Proceeds from bank loans		1,469,356	622,596
Repayment of debt securities issued		(14,963,126)	(9,756,630)
Short-term debt instruments interest paid		(40,340)	(191,175)
Short-term bank loans interest paid		(31,674)	(1,643)
Long-term bank loans interest paid		(26,188)	—
Long-term bonds interest paid		(223,201)	(414,778)
Dividends paid		(648)	(12,715)
Payment of lease liabilities		(71,140)	—
Payment for other financing activities		(7,264)	—
Net cash generated from / (used in) financing activities		<u>6,464,770</u>	<u>(2,440,915)</u>
Net increase / (decrease) in cash and cash equivalents		13,516,417	(1,546,929)
Cash and cash equivalents at the beginning of the period		40,792,310	31,378,585
Effect of foreign exchange rate changes		(53,928)	(174,282)
Cash and cash equivalents at the end of the period	35	<u>54,254,799</u>	<u>29,657,374</u>

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages F-262 to F-324 form part of this interim financial report.

Notes to the unaudited condensed consolidated financial statements
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

1 General information

Huatai Securities Co., Ltd. (the “Company”), formerly known as Jiangsu Securities Company, was approved by the People’s Bank of China (“PBOC”), and registered with the Administration for Industry and Commerce of Jiangsu Province on 9 April 1991, with a registered capital of RMB10 million. The Company was renamed as Huatai Securities Limited Liability Company on 21 December 1999 and then renamed as Huatai Securities Co., Ltd. on 7 December 2007 as a result of the conversion into a joint stock limited liability company.

The Company publicly issued RMB784,561 thousand ordinary shares (A shares) in February 2010, and was listed on the Shanghai Stock Exchange on 26 February 2010.

In June 2015, the Company issued RMB1,562,769 thousand H shares, which were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

In July 2018, the Company issued RMB1,088,731 thousand A share through private placement.

As at 31 March 2019, the Company’s registered capital was RMB8,251,500 thousand and the Company has a total of 8,251,500 thousand issued shares of RMB1 each.

The Company and its subsidiaries (the “Group”) principally engaged in securities brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment advisory, asset management, margin financing and securities lending, agency sale of financial products, intermediary introduction business for the futures companies, agency sale and custody of securities investment fund, mutual fund management, brokerage of spot contracts for precious metal such as gold, proprietary trading of spot contract for gold, direct investment business, alternative investment business, stock option market making, futures brokerage business and other business activities as approved by the China Securities Regulatory Commission (“CSRC”).

2 Basis of preparation

The interim financial report has been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report do not include all the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial report as at and for the year ended 31 December 2018.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in significant accounting policies

The Group has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated-i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as lease under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of the irrelative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Group leases many assets, most of which are properties.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases- i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in significant accounting policies (continued)

(b) As a lessee (continued)

The carrying amounts of right-of-use assets are as below.

	<u>Property and equipment</u>
Balance at 1 January 2019	725,265
Balance at 31 March 2019	710,953

The Group presents lease liabilities in “other payables and accruals” in the statement of financial position.

(i) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

(ii) Transition

Previously, the Group classified property leases as operating leases under IAS 17. The leases typically run for a period of 3 to 5 years.

At transition, for leases classified as operating lease under IAS 17, lease liabilities were remeasured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Other than the recognition of lease liabilities and right-of-use assets, the adoption of IFRS 16 does not result in any impact on the Group’s equity as at 1 January 2019.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in significant accounting policies (continued)

(b) As a lessee (continued)

(ii) Transition (continued)

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) As a lessor

The Group leases out its investment property. The Group has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

(d) Impacts on financial statements

(i) Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	<u>1 January 2019</u>
Right-of-use assets presented in property and equipment	725,265
Lease liabilities	(707,224)
Prepaid lease payments:	(18,041)
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	832,486
Discounted using the incremental borrowing rate at 1 January 2019	781,902
—Recognition exemption for leases with less than 12 months of lease term at transition	(74,678)
Lease liabilities recognised at 1 January 2019	<u>707,224</u>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The incremental borrowing rates range from 4.17%-6.00%.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

3 Changes in significant accounting policies (continued)

(d) Impacts on financial statements (continued)

(ii) Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised RMB710,953 thousand of right-of-use assets and RMB685,457 thousand of lease liabilities as at 31 March 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the three months ended 31 March 2019, the Group recognised RMB61,509 thousand of depreciation charges and RMB5,570 thousand of interest costs from these leases.

4 Fee and commission income

	Three months ended 31 March	
	2019	2018
Income from securities brokerage and advisory business	1,586,368	1,376,284
Income from asset management business	961,364	740,290
Income from futures brokerage business	230,285	118,362
Income from underwriting and sponsorship business	172,396	308,959
Income from financial advisory business	77,948	109,115
Other commission income	18,902	18,458
Total	<u>3,047,263</u>	<u>2,671,468</u>

5 Interest income

	Three months ended 31 March	
	2019	2018
Interest income from margin financing and securities lending	817,382	1,079,674
Interest income from financial institutions	506,813	586,120
Interest income from securities-backed lending	264,851	661,546
Interest income from debt instruments at amortised cost	156,357	44,013
Interest income from other financial assets held under resale agreements	68,940	83,690
Others	64,979	12,073
Total	<u>1,879,322</u>	<u>2,467,116</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

6 Net investment gains

	Three months ended 31 March	
	2019	2018
Dividend income and interest income from financial instruments at fair value through profit or loss	400,445	893,207
Net gains arising from derecognition of debt investment at amortised cost	980	—
Net realised losses from disposal of derivative financial instruments	(437,921)	(20,507)
Net realised gains / (losses) from disposal of financial instruments at fair value through profit or loss	1,531,420	(138,424)
Unrealised fair value changes of derivative financial instruments	(1,281,610)	208,933
Unrealised fair value changes of financial instruments at fair value through profit or loss	1,995,937	10,176
Total	<u>2,209,251</u>	<u>953,385</u>

7 Other income and gains

	Three months ended 31 March	
	2019	2018
Income from commodity sales	163,327	87,747
Rental income	13,937	21,890
Government grants ⁽¹⁾	10,025	71,763
Foreign exchange losses	(1,903)	(33,636)
Gains on disposal of property and equipment	—	107
Others	27,822	42,208
Total	<u>213,208</u>	<u>190,079</u>

(1) The government grants were received unconditionally by the Company and its subsidiaries from the local government where they reside.

8 Fee and commission expenses

	Three months ended 31 March	
	2019	2018
Expenses for securities brokerage and advisory business	506,183	429,530
Expenses for asset management business	212,426	174,537
Expenses for futures brokerage business	179,785	67,511
Expenses for underwriting and sponsorship business	2,655	6,295
Other commission expenses	4,535	3,051
Total	<u>905,584</u>	<u>680,924</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

9 Interest expenses

	Three months ended 31 March	
	2019	2018
Interest expenses on long-term bonds	702,176	957,440
Interest expenses on financial assets sold under repurchase agreements	335,658	342,218
Interest expenses on short-term debt instruments issued	99,037	218,252
Interest expenses on placements	78,304	130,754
Interest expenses of accounts payable to brokerage clients	77,004	69,300
Interest expenses on long-term bank loans	26,188	—
Interest expenses on short-term bank loans	21,716	1,643
Interest expenses on lease liabilities	5,570	—
Others	30,482	13,517
Total	<u>1,376,135</u>	<u>1,733,124</u>

10 Staff costs

	Three months ended 31 March	
	2019	2018
Salaries, bonuses and allowances	1,360,985	1,120,684
Contribution to pension schemes	105,294	85,125
Cash-settled share-based payment expenses	35,565	8,724
Other social welfare	134,882	112,252
Total	<u>1,636,726</u>	<u>1,326,785</u>

The domestic employees of the Group in the PRC participate in social welfare plans, including pension, medical, housing, and other welfare benefits, organised and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labour and social welfare authorities. The contributions to the social security plans are expensed as incurred.

11 Depreciation and amortisation expenses

	Three months ended 31 March	
	2019	2018
Amortisation of other intangible assets	97,589	73,366
Depreciation of property and equipment	87,680	54,853
Depreciation of right-of-use assets	61,509	—
Amortisation of leasehold improvements and long-term deferred expenses	15,939	8,111
Depreciation of investment properties	5,857	8,951
Total	<u>268,574</u>	<u>145,281</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

12 Tax and surcharges

	Three months ended 31 March	
	2019	2018
City maintenance and construction tax	17,080	14,115
Education surcharges	12,692	10,961
Others	9,791	8,278
Total	<u>39,563</u>	<u>33,354</u>

13 Other operating expenses

	Three months ended 31 March	
	2019	2018
Cost of commodity sales	163,346	89,306
Marketing, advertising and promotion expenses	53,417	32,560
Stock exchange fee	40,827	39,204
Consulting fees	40,651	10,154
Business travel expenses	35,842	29,299
IT expenses	34,799	33,044
Products distribution expenses	32,402	34,561
Securities investor protection funds	29,931	23,582
Rental expenses	29,853	77,299
Business entertainment expenses	29,622	22,696
Postal and communication expenses	18,812	17,461
Utilities	9,210	5,660
Auditors' remuneration	603	651
Others	131,309	129,319
Total	<u>650,624</u>	<u>544,796</u>

14 Net provision for / (reversal of) impairment loss on financial assets

	Three months ended 31 March	
	2019	2018
Provision for / (reversal of) impairment losses against financial assets held under resale agreements	78,501	(19,096)
(Reversal of) / provision for impairment losses against other receivables and prepayments	(48,256)	19,964
Provision for impairment losses against accounts receivable	9,237	428
(Reversal of) / provision for impairment losses against cash and bank balances	(897)	4,459
Provision for impairment losses against debt investment at amortised cost	1,661	358
Reversal of impairment losses against margin accounts receivable	(18,628)	(54,120)
Provision for impairment losses against financial assets at fair value through other comprehensive income	232	—
Total	<u>21,850</u>	<u>(48,007)</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

15 Income tax expense

(a) Taxation in the consolidated income statements represents:

	Three months ended 31 March	
	2019	2018
Current income tax	773,096	369,914
Deferred tax	66,299	124,718
Total	<u>839,395</u>	<u>494,632</u>

- (1) According to the PRC Corporate Income Tax ("CIT") Law that took effect on 1 January 2008, the Company and the Group's subsidiaries in the Mainland China are subject to CIT at the statutory tax rate of 25%.
- (2) Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profits. The federal income tax of subsidiaries in the United States were provided at the rate of 21% from 1 January 2018, whereas the states' income tax are charged at the applicable local tax rates.

(b) Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Three months ended 31 March	
	2019	2018
Profit before income tax	3,477,620	2,465,937
National tax calculated using the PRC statutory tax rate	869,405	616,484
Tax effect of non-deductible expenses	2,200	7,256
Tax effect of non-taxable income	(45,723)	(111,345)
Tax effect of unused tax losses not recognised	249	772
Effect of different tax rates of the subsidiaries	14,640	(12,780)
Effect of using the deductible tax losses for which no deferred tax asset was recognised in previous period	(1,376)	(5,771)
Others	—	16
Actual income tax expense	<u>839,395</u>	<u>494,632</u>

16 Basic and diluted earnings per share

	Note	Three months ended 31 March	
		2019	2018
Weighted average number of ordinary shares (in thousands)	16(a)	8,251,500	7,162,769
Net profit attributable to equity shareholders of the Company (in RMB thousands)		2,613,058	1,953,739
Basic and diluted earnings per share attributable to equity shareholders of the Company (in RMB per share)		0.32	0.27

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the period.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

16 Basic and diluted earnings per share (continued)

(a) Weighted average number of ordinary shares (in thousands)

	Three months ended 31 March	
	2019	2018
Number of ordinary shares as at 1 January	8,251,500	7,162,769
Increase in weighted average number of ordinary shares	—	—
Weighted average number of ordinary shares	<u>8,251,500</u>	<u>7,162,769</u>

17 Property and equipment

	Buildings	Motor vehicles	Electric equipment	Furniture and fixtures	Construction in progress	Right-of-use assets	Total
Cost							
As at 1 January 2019	3,574,577	147,871	791,119	221,437	49,026	725,265	5,509,295
Additions	293	10,962	82,596	2,811	15,475	47,197	159,334
Transfer during the period	—	—	—	991	(2,705)	—	(1,714)
Transfer in from investment properties	—	—	—	—	—	—	—
Disposals	—	(3,346)	(26,842)	(1,182)	—	—	(31,370)
As at 31 March 2019	<u>3,574,870</u>	<u>155,487</u>	<u>846,873</u>	<u>224,057</u>	<u>61,796</u>	<u>772,462</u>	<u>5,635,545</u>
Accumulated depreciation							
As at 1 January 2019	(598,166)	(125,141)	(433,285)	(79,285)	—	—	(1,235,877)
Charge for the period	(24,874)	(1,551)	(35,684)	(25,571)	—	(61,509)	(149,189)
Disposals	—	3,248	25,396	1,137	—	—	29,781
As at 31 March 2019	<u>(623,040)</u>	<u>(123,444)</u>	<u>(443,573)</u>	<u>(103,719)</u>	<u>—</u>	<u>(61,509)</u>	<u>(1,355,285)</u>
Carrying amount							
As at 31 March 2019	<u>2,951,830</u>	<u>32,043</u>	<u>403,300</u>	<u>120,338</u>	<u>61,796</u>	<u>710,953</u>	<u>4,280,260</u>
Cost							
As at 1 January 2018	3,823,500	153,137	676,102	131,720	59,487	—	4,843,946
Additions	32,043	1,397	194,711	18,776	41,957	—	288,884
Transfer during the year	—	—	1,793	2,429	(14,721)	—	(10,499)
Transfer in from investment properties	53,901	—	—	—	—	—	53,901
Disposals	—	(6,663)	(81,487)	(11,593)	—	—	(99,743)
Other	(334,867)	—	—	80,105	(37,697)	—	(292,459)
As at 31 December 2018	<u>3,574,577</u>	<u>147,871</u>	<u>791,119</u>	<u>221,437</u>	<u>49,026</u>	<u>—</u>	<u>4,784,030</u>
Accumulated depreciation							
As at 1 January 2018	(493,500)	(123,752)	(417,259)	(71,964)	—	—	(1,106,475)
Charge for the year	(101,894)	(7,860)	(96,638)	(17,238)	—	—	(223,630)
Transfer in from investment properties	(2,772)	—	—	—	—	—	(2,772)
Disposals	—	6,471	80,612	9,917	—	—	97,000
As at 31 December 2018	<u>(598,166)</u>	<u>(125,141)</u>	<u>(433,285)</u>	<u>(79,285)</u>	<u>—</u>	<u>—</u>	<u>(1,235,877)</u>
Carrying amount							
As at 31 December 2018	<u>2,976,411</u>	<u>22,730</u>	<u>357,834</u>	<u>142,152</u>	<u>49,026</u>	<u>—</u>	<u>3,548,153</u>

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

17 Property and equipment (continued)

As at 31 March 2019 and 31 December 2018, included in buildings, there is a carrying amount of RMB67,800 thousand and RMB68,517 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

18 Goodwill

	As at 31 March 2019	As at 31 December 2018
Cost	2,040,399	2,040,399
Effect of exchange rate changes for cost	17,023	59,013
Less: Provision for impairment losses	—	—
Carrying amount	<u>2,057,422</u>	<u>2,099,412</u>

19 Other intangible assets

	Land use rights	Existing relationships with broker-dealers	Trade names	Software and others	Total
Cost					
As at 1 January 2019	359,161	3,917,479	314,714	1,912,694	6,504,048
Additions	—	—	9,105	57,861	66,966
Disposals	—	—	—	—	—
Exchange differences	—	(86,938)	(6,984)	(16,283)	(110,205)
As at 31 March 2019	<u>359,161</u>	<u>3,830,541</u>	<u>316,835</u>	<u>1,954,272</u>	<u>6,460,809</u>
Accumulated amortisation					
As at 1 January 2019	(78,123)	—	(37,323)	(926,590)	(1,042,036)
Charge for the period	(1,798)	—	(6,831)	(88,960)	(97,589)
Disposals	—	—	—	—	—
Exchange differences	—	—	1,178	5,617	6,795
As at 31 March 2019	<u>(79,921)</u>	<u>—</u>	<u>(42,976)</u>	<u>(1,009,933)</u>	<u>(1,132,830)</u>
Carrying amount					
As at 31 March 2019	<u>279,240</u>	<u>3,830,541</u>	<u>273,859</u>	<u>944,339</u>	<u>5,327,979</u>
Cost					
As at 1 January 2018	359,161	3,727,631	299,463	1,445,500	5,831,755
Additions	—	—	—	438,444	438,444
Disposals	—	—	—	(141)	(141)
Exchange differences	—	189,848	15,251	28,891	233,990
As at 31 December 2018	<u>359,161</u>	<u>3,917,479</u>	<u>314,714</u>	<u>1,912,694</u>	<u>6,504,048</u>
Accumulated amortisation					
As at 1 January 2018	(70,927)	—	(20,868)	(602,211)	(694,006)
Charge for the year	(7,196)	—	(14,973)	(313,790)	(335,959)
Disposals	—	—	—	92	92
Exchange differences	—	—	(1,482)	(10,681)	(12,163)
As at 31 December 2018	<u>(78,123)</u>	<u>—</u>	<u>(37,323)</u>	<u>(926,590)</u>	<u>(1,042,036)</u>
Carrying amount					
As at 31 December 2018	<u>281,038</u>	<u>3,917,479</u>	<u>277,391</u>	<u>986,104</u>	<u>5,462,012</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

19 Other intangible assets (continued)

Existing relationships with broker-dealers are regarded as having an indefinite useful life because there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

20 Interest in associates

	As at 31 March 2019	As at 31 December 2018
Share of net assets	<u>13,464,277</u>	<u>12,527,828</u>

The following list contains only the particulars of material associates, all of which (except for Bank of Jiangsu Co., Ltd. (“Bank of Jiangsu”) which has been listed on the Shanghai Stock Exchange) are unlisted corporate entities whose quoted market price is not available:

Name of associates	Registered place	Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Bank of Jiangsu ⁽ⁱ⁾	Nanjing	11,544,450	5.54%	5.54%	—	Commercial banking
China Southern Asset Management Co., Ltd.	Shenzhen	300,000	45.00%	45.00%	—	Fund management
Nanjing Huatai Ruilian NO.1 Funds Mergers (Limited Partnership)	Nanjing	5,442,000	48.27%	—	48.27%	Equity investment

(i) The Group has appointed one director in the board of directors of Bank of Jiangsu during 2018. The Group formulated certain specific implementation measures on the finance and operation policy-making of Bank of Jiangsu that had a significant influence over it and recognised interest in associates using the equity method.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

21 Interest in joint ventures

	As at 31 March 2019	As at 31 December 2018
Share of net assets	<u>651,792</u>	<u>649,833</u>

The following list contains only the particular joint venture, which is accounted for using the equity method in the consolidated financial statements, is as follow:

Name of joint venture	Registered place	Registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership)	Nanjing	10,001,000	10.00%	—	10.00%	Equity investment

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

21 Interest in joint ventures (continued)

As at 31 March 2019, the Group holds 10.00% equity interest of Huatai Merchant (Jiangsu) Capital Market Investment Fund of Funds (Limited Partnership). Pursuant to the partnership agreement, the Group and the third party contractually agree to share control of the fund, and have rights to the net assets of the fund. The directors of the Group consider the fund is jointly controlled by the Group and the third party, and it is therefore accounted for as joint venture of the Group.

22 Debt investment at amortised cost

(a) Analysed by nature:

Non-current

	As at 31 March 2019	As at 31 December 2018
Debt securities	13,361,614	13,208,179
Loan and advances	843,960	651,983
Less: impairment losses	(6,494)	(5,284)
Total	<u>14,199,080</u>	<u>13,854,878</u>

Current

	As at 31 March 2019	As at 31 December 2018
Debt securities	2,127,490	2,276,968
Loan and advances	428,077	143,100
Less: impairment losses	(1,219)	(782)
Total	<u>2,554,348</u>	<u>2,419,286</u>

As at 31 March 2019, the Group has pledged debt investment at amortised cost with a total fair value of RMB7,018,947 thousand and carrying amount of RMB6,948,995 thousand for the purpose of repurchase agreement business. The fair values of these securities have taken into account the relevant features including the restrictions.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 March 2019	As at 31 December 2018
At the beginning of the period / year	6,066	151
Charge for the period / year	1,767	6,978
Reversal of impairment	(106)	(1,063)
Amounts written-off	(14)	—
At the end of the period / year	<u>7,713</u>	<u>6,066</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

23 Financial assets at fair value through other comprehensive income

Non-current

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Equity investment		
Equity securities designated at financial assets at fair value through other comprehensive income		
—Unlisted equity securities	82,294	82,294
—Other unlisted equity investment ⁽¹⁾	10,535,390	9,767,639
	<u>10,617,684</u>	<u>9,849,933</u>
Debt investment		
Debt securities	170,964	—
Loan and advances	128,424	248,449
	<u>299,388</u>	<u>248,449</u>
Total	<u>10,917,072</u>	<u>10,098,382</u>
Analysed as:		
Unlisted	10,746,108	10,098,382
Listed	170,964	—
Total	<u>10,917,072</u>	<u>10,098,382</u>

- (1) As at 31 March 2019, the financial assets at fair value through other comprehensive income above contained the special account investment. The Company has entered into the agreement with China Securities Finance Corporation Limited (CSF), contributed to the special account established and managed by CSF for unified operation. Risk and income arising from the investment shall be shared by all securities firms according to the proportion of their respective contribution. As at 31 March 2019 and 31 December 2018, the fair value of the Company's contribution recognised by the Company was approximately RMB10,535 million and RMB9,768 million, based on the investment account statement provided by CSF. The Group designated the special amount investment at financial assets at fair value through other comprehensive income (non-recycling) as the investment is not held for trading.

Current

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Debt investment		
Loan and advances	<u>471,410</u>	<u>358,361</u>
Analysed as:		
Unlisted	<u>471,410</u>	<u>358,361</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

24 Financial assets at fair value through profit or loss

Non-current

(a) Analysed by type:

	As at 31 March 2019	As at 31 December 2018
Equity securities	3,076,372	3,072,923
Debt securities	736,058	750,853
Funds	397,484	417,119
Wealth management products	938,148	914,281
Total	<u>5,148,062</u>	<u>5,155,176</u>

(b) Analysed as:

	As at 31 March 2019	As at 31 December 2018
Listed	407,720	406,000
Unlisted	4,740,342	4,749,176
Total	<u>5,148,062</u>	<u>5,155,176</u>

Current

(a) Analysed by type:

	As at 31 March 2019	As at 31 December 2018
Debt securities	103,959,997	81,535,117
Funds	21,319,994	22,360,796
Equity securities	10,345,394	7,299,492
Wealth management products	9,387,085	5,893,751
Total	<u>145,012,470</u>	<u>117,089,156</u>

(b) Analysed as:

	As at 31 March 2019	As at 31 December 2018
Listed	72,487,695	61,277,711
Unlisted	72,524,775	55,811,445
Total	<u>145,012,470</u>	<u>117,089,156</u>

As at 31 March 2019, the fund investments with lock-up periods in its investment portfolio held by the Group are RMB18,883 thousand. The fair value of these funds have taken into account the relevant features including the restrictions.

As at 31 March 2019, the listed equity securities held by the Group included approximately RMB652,902 thousand of restricted shares. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

24 Financial assets at fair value through profit or loss (continued)

(b) Analysed as (continued):

The equity interest in unlisted securities held by the Group are issued by private companies. The value of the securities is measured by comparing with comparable companies that are listed and in the same sector or measured by using other valuation techniques.

Non-current financial assets at fair value through profit or loss investments are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods. The fair value of the Group's investments in unlisted funds, which mainly invest in publicly traded equities listed in the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group's investments in equity securities without restriction, exchange-listed funds and debt securities are determined with reference to their quoted prices as at reporting date.

As at 31 March 2019, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss investments with total fair value of RMB806,190 thousand to external clients, which did not result in derecognition of the financial assets. The fair value of collaterals for the securities lending business is analysed in Note 30(c) together with the fair value of collaterals of margin financing business.

As at 31 March 2019, the Group has pledged financial assets at fair value through profit or loss investment with a total fair value of RMB41,971,798 thousand for the purpose of repurchase agreement business and bond lending business. The fair value of these securities have taken into account the relevant features including the restrictions.

25 Refundable deposits

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Deposits with stock exchanges		
—China Securities Depository and Clearing Corporation Limited	375,226	366,632
—Hong Kong Securities Clearing Company Limited	5,668	8,275
—Hong Kong Stock Exchange	515	526
	<u>381,409</u>	<u>375,433</u>
Deposits with futures and commodity exchanges		
—China Financial Futures Exchange	3,240,910	1,991,536
—Shanghai Futures Exchange	2,011,068	1,295,101
—Dalian Commodity Exchange	1,083,793	1,307,482
—Zhengzhou Commodity Exchange	960,279	725,813
—Shanghai International Energy Exchange	293,602	127,174
—Overseas Commodity Exchange	143,292	102,835
	<u>7,732,944</u>	<u>5,549,941</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

25 Refundable deposits (continued)

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Deposits with other institutions		
—China Securities Finance Corporation Limited	198,506	1,682,150
—Shanghai Clearing House	117,474	107,094
—Shanghai Gold Exchange	400	300
—Other financial institutions	143,376	121,588
	<u>459,756</u>	<u>1,911,132</u>
Total	<u>8,574,109</u>	<u>7,836,506</u>

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred taxation

(a) *The components of deferred tax assets / (liabilities) recognised in the consolidated statements of financial position and the movements are as follows:*

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of derivative financial instruments	Changes in fair value of available-for-sale financial assets	Changes in fair value of financial assets at fair value through other comprehensive income	Intangible assets recognised in the acquisition	Others	Total
As at 1 January 2019	370,853	1,386,041	(284,721)	(313,601)	—	29,136	(1,224,780)	(1,547,969)	(1,585,041)
Recognised in profit or loss	2,068	(2,071)	(321,125)	281,813	—	—	34,734	(61,718)	(66,299)
Recognised in reserves	—	—	—	—	—	(191,937)	—	—	(191,937)
As at 31 March 2019	372,921	1,383,970	(605,846)	(31,788)	—	(162,801)	(1,190,046)	(1,609,687)	(1,843,277)
As at 31 December 2017	174,630	1,547,359	(257,295)	303,757	(392,060)	—	(1,189,098)	(1,646,183)	(1,458,890)
Impact on initial application of IFRS9	(15,404)	—	(131,799)	—	392,060	(272,986)	—	25,817	(2,312)
As at 1 January 2018	159,226	1,547,359	(389,094)	303,757	—	(272,986)	(1,189,098)	(1,620,366)	(1,461,202)
Recognised in profit or loss	211,627	(161,318)	104,373	(617,358)	—	—	(35,682)	72,397	(425,961)
Recognised in reserves	—	—	—	—	—	302,122	—	—	302,122
As at 31 December 2018	370,853	1,386,041	(284,721)	(313,601)	—	29,136	(1,224,780)	(1,547,969)	(1,585,041)

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

26 Deferred taxation (continued)

(b) Reconciliation to the statements of financial position

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Net deferred tax assets recognised in the statement of financial position	189,014	225,135
Net deferred tax liabilities recognised in the statement of financial position	(2,032,291)	(1,810,176)
Total	<u>(1,843,277)</u>	<u>(1,585,041)</u>

(c) Deferred tax assets not recognised

As at 31 March 2019 and 31 December 2018, the Group has not recognised unused tax losses of RMB1,140,075 thousand and RMB1,144,583 thousand respectively as deferred tax assets, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The related tax losses do not expire under current tax legislation.

27 Other non-current assets

(a) Analysed by nature:

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Leasehold improvements and long-term deferred expenses	<u>248,245</u>	<u>259,751</u>

(b) The movements of leasehold improvements and long-term deferred expenses are as below:

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
At the beginning of the period / year	259,751	81,047
Additions	2,719	205,686
Transfer in from property and equipment	1,714	10,499
Amortisation	(15,939)	(37,481)
At the end of the period / year	<u>248,245</u>	<u>259,751</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

28 Accounts receivable

(a) Analysed by nature:

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Accounts receivable of:		
—Return swap and OTC options	2,929,931	1,465,653
—Fee and commission	738,089	763,403
—Brokers, dealers and clearing house	650,243	323,014
—Interest of interest rate swap	322,888	223,324
—Settlement	215,802	120,027
—Subscription receivable	137,853	23,851
—Redemption of open-ended fund	59,676	7,948
—Others	169,748	180,835
Less: impairment losses	(27,127)	(17,890)
Total	<u>5,197,103</u>	<u>3,090,165</u>

(b) Analysed by ageing:

As at the end of the reporting period, the ageing analysis of accounts receivable, based on the trade date, is as follows:

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Within 1 month	4,200,780	2,676,272
1 to 3 months	866,986	335,761
Over 3 months	129,337	78,132
Total	<u>5,197,103</u>	<u>3,090,165</u>

(c) Analysis of the movement of provision for impairment losses:

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
At the beginning of the period / year	17,890	9,918
Charge for the period / year	9,237	8,545
Reversal of impairment	—	—
Amounts written-off	—	(573)
At the end of the period / year	<u>27,127</u>	<u>17,890</u>

(d) Accounts receivable that is not impaired

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

29 Other receivables and prepayments

(a) Analysed by nature:

	As at 31 March 2019	As at 31 December 2018
Other receivables ⁽¹⁾	419,987	387,832
Interest receivable	176,104	184,677
Dividend receivable	174,788	210,032
Tax refund	29,707	472,541
Deferred expenses	12,538	25,187
Others	345,201	274,821
Total	<u>1,158,325</u>	<u>1,555,090</u>

(1) Other receivables:

	As at 31 March 2019	As at 31 December 2018
Other receivables	1,123,870	1,102,147
Less: impairment losses	<u>(703,883)</u>	<u>(714,315)</u>
Total	<u>419,987</u>	<u>387,832</u>

The balance of others mainly represents receivables from over-the-counter options clients, the amount due from non-controlling shareholders of Huatai United Securities Co., Ltd., receivables from securities investor protection fund, and sundry receivables arising from normal course of business.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 March 2019	As at 31 December 2018
At the beginning of the period / year	714,315	386,691
Charge for the period / year	—	343,960
Reversal of impairment	(10,432)	(16,230)
Amounts written-off	—	(106)
At the end of the period / year	<u>703,883</u>	<u>714,315</u>

30 Margin accounts receivable

(a) Analysed by nature:

	As at 31 March 2019	As at 31 December 2018
Individuals	55,024,718	43,445,557
Institutions	3,008,527	2,861,681
Less: impairment losses	<u>(99,725)</u>	<u>(118,353)</u>
Total	<u>57,933,520</u>	<u>46,188,885</u>

As at 31 March 2019 and 31 December 2018, the amount of margin accounts receivable which the Group transfers to the securitisation vehicle is RMB1,093,235 and RMB1,077,838 thousand,

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

30 Margin accounts receivable (continued)

(a) Analysed by nature (continued):

respectively, which did not result in derecognition of the financial assets. The securitisation vehicle issued asset-backed securities to investors with the purchased assets as the underlying assets.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 March 2019	As at 31 December 2018
At the beginning of the period / year	118,353	140,217
Charge for the period / year	14	29,561
Reversal of impairment	(18,642)	(51,425)
At the end of the period / year	<u>99,725</u>	<u>118,353</u>

(c) The fair value of collaterals for margin financing and securities lending business is analysed as the followings:

	As at 31 March 2019	As at 31 December 2018
Fair value of collaterals:		
—Equity securities	179,483,802	119,268,801
—Cash	11,367,058	6,966,255
—Funds	2,257,865	3,078,365
—Debt securities	267,674	185,062
Total	<u>193,376,399</u>	<u>129,498,483</u>

The Group evaluates the collectability of receivable from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin client.

31 Derivative financial instruments

	As at 31 March 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	90,864,620	8,509	(35,617)
Currency derivatives	300,215	28,186	(5,271)
Equity derivatives	52,069,652	938,811	(995,821)
Credit derivatives	65,000	732	(32)
Commodity derivatives	42,803,747	10,449	(970,338)
Total	<u>186,103,234</u>	986,687	(2,007,079)
Less: settlement		(38,542)	152,782
Net position		<u>948,145</u>	<u>(1,854,297)</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

31 Derivative financial instruments (continued)

	As at 31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives	62,537,399	2,934	(29,667)
Currency derivatives	849,807	26,935	(849)
Equity derivatives	45,549,553	1,902,365	(768,911)
Credit derivatives	35,000	554	(56)
Others	3,050,979	64,594	(5,023)
Total	<u>112,022,738</u>	1,997,382	(804,506)
Less: settlement		(63,424)	28,404
Net position		<u>1,933,958</u>	<u>(776,102)</u>

Under the daily market-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settled in Shanghai Clearing House, stock index futures and treasury futures settled in China Financial Futures Exchange and certain commodity futures traded through Huatai Futures Co., Ltd. ("Huatai Futures"), were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net position of the above contracts was nil as at 31 March 2019 and 31 December 2018.

32 Clearing settlement funds

	As at 31 March 2019	As at 31 December 2018
Deposits with stock exchanges		
—China Securities Depository and Clearing Corporation Limited	2,084,200	3,021,783
Deposits with other institutions	5,749	1,587
Total	<u>2,089,949</u>	<u>3,023,370</u>

33 Cash held on behalf of brokerage clients

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statements of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that they are liable for any loss or misappropriation of their brokerage clients' monies. In the Mainland China, the use of cash held on behalf of brokerage clients is restricted and governed by the relevant third-party deposit regulations issued by the CSRC. In Hong Kong, the use of cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

34 Cash and bank balances

(a) Analysed by nature:

	As at 31 March 2019	As at 31 December 2018
Cash on hand	44	225
Bank balances	35,255,539	28,201,747
Less: impairment losses	(450)	(1,347)
Total	<u>35,255,133</u>	<u>28,200,625</u>

Bank balances comprise time and demand deposits which bear interest at the prevailing market rates.

(b) Analysis of the movement of provision for impairment losses:

	As at 31 March 2019	As at 31 December 2018
At the beginning of the period /year	1,347	3,496
Charge for the period / year	185	1
Reversal of impairment	(1,082)	(2,150)
At the end of the period /year	<u>450</u>	<u>1,347</u>

35 Cash and cash equivalents

	As at 31 March 2019	As at 31 December 2018
Cash on hand	44	225
Bank balances	35,224,222	27,996,453
Clearing settlement funds	2,089,740	3,023,296
Financial assets held under resale agreements within 3 months original maturity	20,834,052	15,545,947
Less: restricted bank deposits	(3,893,259)	(5,773,611)
Total	<u>54,254,799</u>	<u>40,792,310</u>

The restricted bank deposits include bank deposits with original maturity of more than three months held by the Group, minimum liquid capital restriction deposits, pledge for exchangeable bonds and risk reserve deposits.

36 Short-term bank loans

	As at 31 March 2019	As at 31 December 2018
Unsecured loans	1,415,181	3,015,791
Pledged loan	60,059	—
Total	<u>1,475,240</u>	<u>3,015,791</u>

As at 31 March 2019, the interest rates for short-term loans were in the range of 2.85% to 4.28%.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

37 Short-term debt instruments issued

As at 31 March 2019

<u>Name</u>	<u>Par value</u>	<u>Issuance date</u>	<u>Due date</u>	<u>Issue amount</u>	<u>Nominal interest rate</u>
	<u>Original currency</u>			<u>Original currency</u>	
18 HUATAI D1	RMB4,600,000	11/06/2018	11/06/2019	RMB4,600,000	5.00%
FRGN	USD50,000	28/11/2018	28/11/2019	USD50,000	4.61%
Structured notes ⁽¹⁾	RMB20,439,830	<i>Note(1)</i>	<i>Note(1)</i>	RMB20,439,830	<i>Note(1)</i>

<u>Name</u>	<u>Book value as at 1 January 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Book value as at 31 March 2019</u>
	<u>RMB equivalent</u>	<u>RMB equivalent</u>	<u>RMB equivalent</u>	<u>RMB equivalent</u>
18 HUATAI D1	4,727,918	57,360	—	4,785,278
FRGN	344,636	1,336	(7,963)	338,009
Structured notes ⁽¹⁾	16,051,446	16,375,778	(11,963,126)	20,464,098
Total	<u>21,124,000</u>	<u>16,434,474</u>	<u>(11,971,089)</u>	<u>25,587,385</u>

As at 31 December 2018

<u>Name</u>	<u>Par value</u>	<u>Issuance date</u>	<u>Due date</u>	<u>Issue amount</u>	<u>Nominal interest rate</u>
	<u>Original currency</u>			<u>Original currency</u>	
17 HUATAI 05	RMB4,000,000	11/08/2017	11/08/2018	RMB4,000,000	4.65%
17 HUATAI C3	RMB2,000,000	14/09/2017	14/09/2018	RMB2,000,000	5.00%
17 HUATAI 07	RMB4,000,000	20/11/2017	20/11/2018	RMB4,000,000	5.20%
18 HUATAI D1	RMB4,600,000	11/06/2018	11/06/2019	RMB4,600,000	5.00%
FRGN	USD50,000	28/11/2018	28/11/2019	USD50,000	4.61%
Structured notes ⁽¹⁾	RMB16,005,364	<i>Note(1)</i>	<i>Note(1)</i>	RMB16,005,364	<i>Note(1)</i>

<u>Name</u>	<u>Book value as at 1 January 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Book value as at 31 December 2018</u>
	<u>RMB equivalent</u>	<u>RMB equivalent</u>	<u>RMB equivalent</u>	<u>RMB equivalent</u>
17 HUATAI 05	4,000,000	—	(4,000,000)	—
17 HUATAI C3	2,000,000	—	(2,000,000)	—
17 HUATAI 07	4,000,000	—	(4,000,000)	—
18 HUATAI D1	—	4,727,918	—	4,727,918
FRGN	—	344,636	—	344,636
Structured notes ⁽¹⁾	16,656,010	40,353,236	(40,957,800)	16,051,446
Total	<u>26,656,010</u>	<u>45,425,790</u>	<u>(50,957,800)</u>	<u>21,124,000</u>

(1) For the three months ended 31 March 2019, the Company has issued 985 tranches of structured notes, bearing interest ranging from 2.75% to 6.60% per annum, repayable within 1 year. Structured notes repayable more than 1 year are classified as “Long-term bonds” (Note 43).

38 Placements from other financial institutions

Current

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Placements from China Securities Finance Co., Ltd.	—	2,028,261
Placements from banks	3,178,980	3,785,226
Total	<u>3,178,980</u>	<u>5,813,487</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

38 Placements from other financial institutions (continued)

As at 31 March 2019, the placements from banks are unsecured, bearing interest of 2.96%-5.20% per annum, with maturities within 201 days.

39 Accounts payable to brokerage clients

	As at 31 March 2019	As at 31 December 2018
Clients' deposits for other brokerage trading	78,417,672	52,259,810
Clients' deposits for margin financing and securities lending	11,716,103	7,232,366
Total	<u>90,133,775</u>	<u>59,492,176</u>

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. Accounts payable to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

40 Other payables and accruals

Current

	As at 31 March 2019	As at 31 December 2018
Payables to interest holders of consolidated structured entities ⁽¹⁾	64,443,888	43,497,437
Trade payable	3,402,589	3,358,493
Payable to open-ended funds	2,769,278	2,876,029
Settlement payables	1,021,069	669,789
Payable to asset-based securities wealth management scheme	950,000	950,000
Other tax payable	756,490	562,300
Interest payable	328,744	229,002
Lease liabilities	249,305	—
Futures risk reserve	114,373	111,877
Payable for office building construction	85,019	172,822
Fee and commission payable	76,826	119,211
Payable to the securities investor protection fund	30,776	49,895
Redemption payables	19,446	65,497
Payable to brokerage agents	12,096	20,450
Others ⁽²⁾	926,069	1,110,284
Total	<u>75,185,968</u>	<u>53,793,086</u>

(1) The financial liabilities arising from the consolidated structured entities with underlying investments in money market and fixed income instruments are classified as other payables and accruals in these consolidated financial statements. It is because, the Group has an obligation to pay other investors upon maturity dates of the structured entities based on the net book value and related terms of those consolidated asset management schemes.

(2) The balance of others mainly represents dividend payable of pledged exchangeable bond and sundry payables arising from normal course of business.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

40 Other payables and accruals (continued)

Non-current

	As at 31 March 2019	As at 31 December 2018
Lease liabilities	436,152	—

41 Financial liabilities at fair value through profit or loss

Non-current

	As at 31 March 2019	As at 31 December 2018
Financial liabilities designated at fair value through profit or loss	2,444,640	2,325,405

Current

	As at 31 March 2019	As at 31 December 2018
Financial liabilities held for trading	1,899,603	2,812,857
Financial liabilities designated at fair value through profit or loss	75,358	61,727
Total	1,974,961	2,874,584

In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities and private funds with the underlying investments related to listed equity investments in active markets and unlisted equities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors or limited partners upon maturity dates of the structured entities based on net book value and related terms of those consolidated asset management schemes or private equity funds.

As at 31 March 2019, there were no significant fair value changes related to the changes in the credit risk of the Group.

42 Long-term bonds due within one year

As at 31 March 2019

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
HUATAI B1910	USD400,000	08/10/2014	08/10/2019	USD399,665	3.625%
16 HUATAI G1	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G3	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
17 HUATAI 02	RMB2,000,000	24/02/2017	24/02/2020	RMB2,000,000	4.65%
17 HUATAI 03	RMB4,000,000	15/05/2017	15/05/2019	RMB4,000,000	5.00%
17 HUATAI 06	RMB5,000,000	19/10/2017	19/04/2019	RMB5,000,000	4.98%
18 HUATAI C1	RMB1,000,000	15/03/2018	15/03/2020	RMB1,000,000	5.65%
Structured notes ⁽¹⁾	RMB1,174,000	Note (1)	Note (1)	RMB1,174,000	5.10%-5.50%

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

42 Long-term bonds due within one year (continued)

Name	Book value as at 1 January 2019	Increase	Decrease	Book value as at 31 March 2019
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
HUATAI B1910	2,767,406	—	(75,736)	2,691,670
16 HUATAI G1	3,508,901	31,238	—	3,540,139
16 HUATAI G3	5,009,345	47,375	—	5,056,720
17 HUATAI 02	—	2,101,982	(93,000)	2,008,982
17 HUATAI 03	4,126,575	50,000	—	4,176,575
17 HUATAI 06	5,049,800	62,250	—	5,112,050
18 HUATAI C1	—	1,056,229	(56,500)	999,729
Structured notes ⁽¹⁾	4,382,589	—	(3,148,560)	1,234,029
Total	<u>24,844,616</u>	<u>3,349,074</u>	<u>(3,373,796)</u>	<u>24,819,894</u>

As at 31 December 2018

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 01	RMB4,000,000	05/06/2013	05/06/2018	RMB4,000,000	4.68%
HUATAI B1910	USD400,000	08/10/2014	08/10/2019	USD399,665	3.625%
15 HUATAI 03	RMB5,000,000	21/04/2015	21/04/2020	RMB5,000,000	5.80%
15 HUATAI G1	RMB6,600,000	29/06/2015	29/06/2018	RMB6,600,000	4.20%
16 HUATAI C2	RMB3,000,000	21/10/2016	21/10/2019	RMB3,000,000	3.12%
16 HUATAI G1	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G3	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
17 HUATAI 01	RMB6,000,000	24/02/2017	24/08/2018	RMB6,000,000	4.50%
17 HUATAI 03	RMB4,000,000	15/05/2017	15/05/2019	RMB4,000,000	5.00%
17 HUATAI 06	RMB5,000,000	19/10/2017	19/04/2019	RMB5,000,000	4.98%
Structured notes ⁽¹⁾	RMB4,174,000	Note (1)	Note (1)	RMB4,174,000	5.10%-5.50%

Name	Book value as at 1 January 2018	Increase	Decrease	Book value as at 31 December 2018
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 01	3,999,226	774	(4,000,000)	—
HUATAI B1910	—	2,767,406	—	2,767,406
15 HUATAI 03	5,000,000	—	(5,000,000)	—
15 HUATAI G1	6,598,254	1,746	(6,600,000)	—
16 HUATAI C2	—	3,000,000	(3,000,000)	—
16 HUATAI G1	—	3,508,901	—	3,508,901
16 HUATAI G3	—	5,009,345	—	5,009,345
17 HUATAI 01	6,000,000	—	(6,000,000)	—
17 HUATAI 03	—	4,126,575	—	4,126,575
17 HUATAI 06	—	5,049,800	—	5,049,800
Structured notes ⁽¹⁾	—	4,382,589	—	4,382,589
Total	<u>21,597,480</u>	<u>27,847,136</u>	<u>(24,600,000)</u>	<u>24,844,616</u>

(1) As at 31 March 2019, RMB1.23 billion of structured notes would mature within one year.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

43 Long-term bonds

As at 31 March 2019

<u>Name</u>	<u>Par value</u>	<u>Issuance date</u>	<u>Due date</u>	<u>Issue amount</u>	<u>Nominal interest rate</u>
	<u>Original currency</u>			<u>Original currency</u>	
13 HUATAI 02	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
16 HUATAI C1	RMB5,000,000	14/10/2016	14/10/2021	RMB5,000,000	3.30%
16 HUATAI G2	RMB2,500,000	06/12/2016	06/12/2021	RMB2,500,000	3.78%
16 HUATAI G4	RMB3,000,000	14/12/2016	14/12/2021	RMB3,000,000	3.97%
17 HUATAI 02	RMB2,000,000	24/02/2017	24/02/2020	RMB2,000,000	4.65%
17 HUATAI 04	RMB6,000,000	15/05/2017	15/05/2020	RMB6,000,000	5.25%
17 HUATAI C2	RMB5,000,000	27/07/2017	27/07/2020	RMB5,000,000	4.95%
18 HUATAI C1	RMB1,000,000	15/03/2018	15/03/2020	RMB1,000,000	5.65%
18 HUATAI C2	RMB2,800,000	10/05/2018	10/05/2021	RMB2,800,000	5.20%
18 HUATAI G1	RMB3,000,000	26/11/2018	26/11/2023	RMB3,000,000	3.88%
18 HUATAI G2	RMB1,000,000	26/11/2018	26/11/2021	RMB1,000,000	4.17%
19 HUATAI G1	RMB7,000,000	19/03/2019	19/03/2022	RMB7,000,000	3.68%

<u>Name</u>	<u>Book value as at 1 January 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Book value as at 31 March 2019</u>
	<u>RMB equivalent</u>	<u>RMB equivalent</u>	<u>RMB equivalent</u>	<u>RMB equivalent</u>
13 HUATAI 02	6,168,633	76,972	—	6,245,605
16 HUATAI C1	5,035,712	41,250	—	5,076,962
16 HUATAI G2	2,506,732	23,625	—	2,530,357
16 HUATAI G4	3,005,873	29,775	—	3,035,648
17 HUATAI 02	2,078,732	—	(2,078,732)	—
17 HUATAI 04	6,198,493	78,750	—	6,277,243
17 HUATAI C2	5,107,815	61,875	—	5,169,690
18 HUATAI C1	1,041,554	—	(1,041,554)	—
18 HUATAI C2	2,891,369	38,195	—	2,929,564
18 HUATAI G1	3,008,192	29,568	—	3,037,760
18 HUATAI G2	1,003,009	10,538	—	1,013,547
19 HUATAI G1	—	7,009,197	(7,264)	7,001,933
Total	<u>38,046,114</u>	<u>7,399,745</u>	<u>(3,127,550)</u>	<u>42,318,309</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

43 Long-term bonds (continued)

As at 31 December 2018

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
13 HUATAI 02	RMB6,000,000	05/06/2013	05/06/2023	RMB6,000,000	5.10%
HUATAI B1910	USD400,000	08/10/2014	08/10/2019	USD399,665	3.625%
16 HUATAI C1	RMB5,000,000	14/10/2016	14/10/2021	RMB5,000,000	3.30%
16 HUATAI C2	RMB3,000,000	21/10/2016	21/10/2019	RMB3,000,000	3.12%
16 HUATAI G1	RMB3,500,000	06/12/2016	06/12/2019	RMB3,500,000	3.57%
16 HUATAI G2	RMB2,500,000	06/12/2016	06/12/2021	RMB2,500,000	3.78%
16 HUATAI G3	RMB5,000,000	14/12/2016	14/12/2019	RMB5,000,000	3.79%
16 HUATAI G4	RMB3,000,000	14/12/2016	14/12/2021	RMB3,000,000	3.97%
17 HUATAI 02	RMB2,000,000	24/02/2017	24/02/2020	RMB2,000,000	4.65%
17 HUATAI 03	RMB4,000,000	15/05/2017	15/05/2019	RMB4,000,000	5.00%
17 HUATAI 04	RMB6,000,000	15/05/2017	15/05/2020	RMB6,000,000	5.25%
17 HUATAI C2	RMB5,000,000	27/07/2017	27/07/2020	RMB5,000,000	4.95%
17 HUATAI 06	RMB5,000,000	19/10/2017	19/04/2019	RMB5,000,000	4.98%
18 HUATAI C1	RMB1,000,000	15/03/2018	15/03/2020	RMB1,000,000	5.65%
18 HUATAI C2	RMB2,800,000	10/05/2018	10/05/2021	RMB2,800,000	5.20%
18 HUATAI G1	RMB3,000,000	26/11/2018	26/11/2023	RMB3,000,000	3.88%
18 HUATAI G2	RMB1,000,000	26/11/2018	26/11/2021	RMB1,000,000	4.17%
Structured notes ⁽¹⁾	RMB4,174,000	Note(1)	Note(1)	RMB4,174,000	5.10%-5.50%

Name	Book value as at 1 January 2018	Increase	Decrease	Book value as at 31 December 2018
	RMB equivalent	RMB equivalent	RMB equivalent	RMB equivalent
13 HUATAI 02	5,992,319	176,314	—	6,168,633
HUATAI B1910	2,608,477	136,259	(2,744,736)	—
16 HUATAI C1	5,000,000	35,712	—	5,035,712
16 HUATAI C2	3,000,000	—	(3,000,000)	—
16 HUATAI G1	3,500,000	—	(3,500,000)	—
16 HUATAI G2	2,500,000	6,732	—	2,506,732
16 HUATAI G3	5,000,000	—	(5,000,000)	—
16 HUATAI G4	3,000,000	5,873	—	3,005,873
17 HUATAI 02	2,000,000	78,732	—	2,078,732
17 HUATAI 03	4,000,000	—	(4,000,000)	—
17 HUATAI 04	6,000,000	198,493	—	6,198,493
17 HUATAI C2	5,000,000	107,815	—	5,107,815
17 HUATAI 06	5,000,000	—	(5,000,000)	—
18 HUATAI C1	—	1,042,544	(990)	1,041,554
18 HUATAI C2	—	2,894,141	(2,772)	2,891,369
18 HUATAI G1	—	3,011,162	(2,970)	3,008,192
18 HUATAI G2	—	1,003,999	(990)	1,003,009
Structured notes ⁽¹⁾	3,000,000	1,174,000	(4,174,000)	—
Total	55,600,796	9,871,776	(27,426,458)	38,046,114

(1) The Company has not issued long-term structured notes during the period ended 31 March 2019. As at 31 March 2019, the structured notes due within one year is classified as “Long-term bonds due within one year” (Note 42).

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

44 Long-term bank loans due within one year

	As at 31 March 2019	As at 31 December 2018
Credit bank loans	<u>16,876</u>	<u>15,820</u>

45 Long-term bank loans

	As at 31 March 2019	As at 31 December 2018
Credit bank loans	1,662,280	1,698,769
Less: credit bank loans due within one year (Note 44)	<u>(16,876)</u>	<u>(15,820)</u>
Total	<u>1,645,404</u>	<u>1,682,949</u>

On 14 November 2018, the Group executed a Loan and Security Agreement with Credit Suisse for USD250 million term loan and secured a revolving line of credit that permit the Group to borrow up to USD20 million, interest on amounts borrowed under the term loan and line of credit equal to LIBOR plus 3.50%.

46 Share capital

All shares issued by the Company are fully paid common shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	As at 31 March 2019		As at 31 December 2018	
	Number of shares	Nominal value	Number of shares	Nominal value
	(Thousands)		(Thousands)	
Registered, issued and fully paid:				
A shares of RMB1 each	6,532,454	6,532,454	6,532,454	6,532,454
H shares of RMB1 each	<u>1,719,046</u>	<u>1,719,046</u>	<u>1,719,046</u>	<u>1,719,046</u>
Total	<u>8,251,500</u>	<u>8,251,500</u>	<u>8,251,500</u>	<u>8,251,500</u>

On 1 June 2015, the Company completed its initial public offering of 1,400,000,000 H shares on the Main Board of the Hong Kong Stock Exchange. On 19 June 2015, the Company partially exercised the over-allotment option and issued additional 162,768,800 H shares.

According to the relevant PRC requirements, existing shareholders of the state-owned shares of the Company have transferred an aggregate number of 156,276,880 state-owned shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H shares on a one-for-one basis.

In July 2018, the Company completed non-publicly issue 1,088,731,200 new A shares. The total paid-up share capital of the Company after the change is RMB8,251,500 thousand.

The H shares rank pari passu in all respects with the existing A shares including the right to receive all dividends and distributions declared or made.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

47 Reserves

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of face value and the difference between the considerations of acquisition of equity interests from non-controlling shareholders and the carrying amount of the proportionate net assets.

The Company was listed on the Main Board of the Hong Kong Stock Exchange on 1 June 2015. The excess of the proceeds over the face value of the total number of ordinary shares issued which amounted to RMB28,590,928 thousand was credited to the capital reserve, net of offering expenses (of which the inter-group transactions were eliminated on consolidation) of RMB441,058 thousand.

The Company non-publicly issued new A shares on 31 July 2018. The excess of the proceeds over the face value of the total number of ordinary shares issued which amounted to RMB13,044,475 thousand was credited to the capital reserve, net of offering expenses (of which the inter-group transactions were eliminated on consolidation) of RMB74,736 thousand.

(b) Surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the Company provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

(c) General reserve

General reserve includes general risk reserve and 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, 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 securities trading losses, the Company appropriates 10% from its annual net profit to the transaction risk reserve.

The Company's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

(d) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of equity investments designated at financial assets at fair value through other comprehensive income.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

47 Reserves (continued)

(e) Translation reserve

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

48 Retained profits

On 29 March 2019, based on the total ordinary shares of 8,251,500,000 of the Company as at 31 December 2018, the Board proposed the cash dividends of RMB3.00 (tax inclusive) per 10 ordinary shares distributed to all the shareholders, with total cash dividend amounting to RMB2,475,450 thousand.

Dividends distributions proposed in the profit appropriation plan, which will be authorised and declared after 31 March 2019, are not recognised as a liability at the end of the reporting period.

49 Commitments

Capital commitments

Capital commitments outstanding as at 31 March 2019 and 31 December 2018 not provided for in the financial report were as follows:

	<u>As at 31 March 2019</u>	<u>As at 31 December 2018</u>
Contracted, but not provided for	<u>9,653</u>	<u>1,770,619</u>

The above-mentioned capital commitments mainly represent the construction of properties and securities underwriting commitments of the Group.

50 Interests in structured entities

(a) Interests in structured entities consolidated by the Group

Structured entities consolidated by the Group mainly stand for the asset management schemes where the Group involves as manager or investment consultant and also as investor. The Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes to a level of such significance that it indicates that the Group is a principal.

As at 31 March 2019 and 31 December 2018, the Group consolidates 30 and 32 structured entities respectively, which are mainly asset management schemes. As at 31 March 2019 and 31 December 2018, the total assets of the consolidated structured entities are RMB77,979,552 thousand and RMB56,643,506 thousand respectively, and the carrying amount of interests held by the Group in the consolidated structured entities are RMB8,107,264 thousand and RMB8,077,163 thousand respectively.

(b) Interests in structured entities sponsored by the Group but not consolidated

Structured entities for which the Group served as general partner or manager, therefore has power over them during the reporting periods are asset management schemes. Except for the structured entities that the Group has consolidated as set out in Note 50(a), the Group's exposure to the variable returns in the rest structured entities in which the Group has interest is not significant. The Group therefore did not consolidate these structured entities.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

50 Interests in structured entities (continued)

(b) Interests in structured entities sponsored by the Group but not consolidated (continued)

As at 31 March 2019 and 31 December 2018, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB956,335,545 thousand and RMB764,743,576 thousand respectively. As at 31 March 2019 and 31 December 2018, the carrying amount of interests held by the Group in these unconsolidated structured entities are RMB1,465,874 thousand and RMB1,139,237 thousand respectively.

During the three months ended 31 March 2019 and 31 March 2018, income derived from these unconsolidated structured entities held by the Group amounted to RMB298,796 thousand and RMB174,337 thousand respectively.

(c) Interests in structured entities sponsored by third party institutions

The types of structured entities sponsored by third party institutions that the Group does not consolidate but in which it holds interests include funds, asset management schemes, trust schemes, and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at 31 March 2019 and 31 December 2018, which are listed as below:

	As at 31 March 2019		
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Funds	11,703,647	—	11,703,647
Wealth management products	7,151,988	10,535,390	17,687,378
Total	<u>18,855,635</u>	<u>10,535,390</u>	<u>29,391,025</u>

	As at 31 December 2018		
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
Funds	13,210,731	—	13,210,731
Wealth management products	4,506,828	9,767,639	14,274,467
Total	<u>17,717,559</u>	<u>9,767,639</u>	<u>27,485,198</u>

51 Contingencies

As at 31 March 2019 and 31 December 2018, the Group involved as defendant in certain lawsuit with claim amounts of approximately RMB14,877 thousand and RMB14,326 thousand, respectively. Based on the court rulings, advices from legal representatives and management

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

51 Contingencies (continued)

judgement, no provision had been made to the claim amounts, the directors of the Company are of the opinion the final court judgement will not have a significant impact on the Group's financial position or operations.

52 Related party relationships and transactions

(a) Relationship of related parties

(i) Major shareholders

The detailed information of the transactions and balances with Group's major shareholders is set out in Note 52(b)(i).

(ii) Associates of the Group

The detailed information of the Group's associates is set out in Note 20.

(iii) Joint ventures of the Group

The detailed information of the Group's joint ventures is set out in Note 21.

(iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals.

(b) Related parties transactions and balances

(i) Transactions between the Group and major shareholders and their subsidiaries:

	<u>As at</u> <u>31 March 2019</u>	<u>As at</u> <u>31 December 2018</u>
Balances at the end of the period / year:		
Financial assets at fair value through profit or loss	332,699	329,514
Debt investment at amortised cost	298,949	302,614
Accounts payable to brokerage clients	76,754	18,919
Other payables and accruals	3,211	3,211
		Three months ended
		31 March
		<u>2019</u> <u>2018</u>
Transactions during the period:		
Fee and commission income		116 1
Net investment gains		3,425 1,313
Interest expenses		1,156 745

For the three months ended 31 March 2019 and 31 March 2018, the Group has made repurchase agreements with major shareholders and their subsidiaries for the total amount of RMB2,089,800 thousand and RMB615,420 thousand, respectively.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

52 Related party relationships and transactions (continued)

(b) Related parties transactions and balances (continued)

(ii) Transactions between the Group and associates:

	As at 31 March 2019	As at 31 December 2018
Balances at the end of the period / year:		
Cash and bank balances	482,205	450,311
Accounts receivable	107,179	105,845
Other receivables and prepayments	131,136	131,324
Financial assets at fair value through profit or loss	1,118,521	—
Accounts payable to brokerage clients	472,302	17,462
Other payables and accruals	555	555
Contract liabilities	7,095	—
	Three months ended 31 March	
	2019	2018
Transactions during the period:		
Fee and commission income	74,539	38,811
Interest income	1,145	5,095
Net investment gains	104	8,488
Other income and gains	528	1,585
Interest expenses	2,700	—

For the three months ended 31 March 2019 and 31 March 2018, the Group has subscribed the corporate bond issued by associates for RMB1,118,411 thousand and RMB66,851 thousand, respectively.

For the three months ended 31 March 2019 and 31 March 2018, the capital injection made by the Group into the associates are nil and RMB149,750 thousand, respectively. For the three months ended 31 March 2019 and 31 March 2018, the disinvestment made by the Group from the associates are RMB15,829 thousand and RMB38,600 thousand, respectively.

For the three months ended 31 March 2019 and 31 March 2018, the Group has made repurchase agreements with associates for the total amount of RMB17,200,000 thousand and nil, respectively. For the three months ended 31 March 2019 and 31 March 2018, the dividend received from associates are RMB187,200 thousand and nil, respectively.

(iii) Transactions between the Group and joint ventures:

	As at 31 March 2019	As at 31 December 2018
Balances at the end of the period / year:		
Accounts receivable	5,178	—
Accounts payable to brokerage clients	69	69
	Three months ended 31 March	
	2019	2018
Transactions during the period:		
Fee and commission income	4,885	—

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

52 Related party relationships and transactions (continued)

(b) Related parties transactions and balances (continued)

(iv) Transactions between the Group and other related parties:

	As at 31 March 2019	As at 31 December 2018
Balances at the end of the period:		
Accounts payable to brokerage clients	5,666	1,282
	Three months ended 31 March	
	2019	2018
Transactions during the period:		
Fee and commission income	14	14

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, is as follows:

	Three months ended 31 March	
	2019	2018
Employee benefits		
—Fees, salaries, allowances and bonuses	2,840	2,723
Post-employment benefits		
—Contribution to pension scheme	134	137
Total	<u>2,974</u>	<u>2,860</u>

Total remuneration is included in “staff costs” (see Note 10).

53 Segment reporting

Management manages the business operations by the following segments in accordance with the nature of the operations and the services provided:

- The wealth management segment engages in the trading of stocks, funds, bonds and futures on behalf of clients, to provide customers with a variety of financial products sales services and asset allocation services. Moreover, the activities of providing margin financing, securities lending, securities-backed lending and sell financial products are included in this segment.
- The institutional services segment mainly provides investment banking business to clients, research and institutional sales, equity securities investments and transactions, fixed income investments and transactions, OTC financial products and transactions.
- The investment management segment mainly consists of asset management, private equity investment, alternative investments and commodities trading and arbitrage.

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 Segment reporting (continued)

- The international business segment mainly includes the overseas business of overseas subsidiaries.
- Other segments include other operations of head office, mainly including interest income, share of profit of associates and joint ventures, interest expenses of working capitals, and costs and expenses of middle offices and back offices.

(a) Business segments

For the three months ended 31 March 2019

	Wealth management	Institutional services	Investment management	International business	Others	Total
Revenue						
—External	3,250,214	1,838,984	967,714	806,402	272,522	7,135,836
—Inter-segment	207	6,281	—	308	796,730	803,526
Other income and gains	170,154	2,737	28,813	17,820	2,337	221,861
Segment revenue and other income	3,420,575	1,848,002	996,527	824,530	1,071,589	8,161,223
Segment expenses	(2,105,767)	(643,482)	(289,842)	(766,130)	(1,106,188)	(4,911,409)
Segment operating profit / (loss)	1,314,808	1,204,520	706,685	58,400	(34,599)	3,249,814
Share of profit of associates and joint ventures	—	—	878,120	—	147,024	1,025,144
Profit before income tax	1,314,808	1,204,520	1,584,805	58,400	112,425	4,274,958
Interest income	1,442,186	90,066	77,082	119,216	150,772	1,879,322
Interest expenses	(577,623)	(379,705)	(28,995)	(103,883)	(285,929)	(1,376,135)
Depreciation and amortisation expenses	(36,025)	(10,119)	(10,505)	(66,616)	(145,309)	(268,574)
Net (provision for) / reversal of impairment loss on financial assets	(11,157)	(2,320)	(6,465)	(1,991)	83	(21,850)
Reversal of impairment loss on other assets	2,488	—	—	—	—	2,488
As at 31 March 2019						
Segment assets	174,893,880	101,806,645	93,700,802	22,931,033	114,643,415	507,975,775
Additions to non-current segment assets during the period	24,437	4,719	347	45,783	107,976	183,262
Segment liabilities	(169,413,053)	(98,015,031)	(73,279,542)	(14,797,765)	(44,541,108)	(400,046,499)

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 Segment reporting (continued)

(a) Business segments (continued)

For the three months ended 31 March 2018

	Wealth management	Institutional services	Investment management	International business	Others	Total
Revenue						
—External	3,489,964	830,514	752,168	710,792	308,531	6,091,969
—Inter-segment	—	—	—	—	1,492,005	1,492,005
Other income and gains	105,855	12,833	83,081	14,823	(18,067)	198,525
Segment revenue and other income	3,595,819	843,347	835,249	725,615	1,782,469	7,782,499
Segment expenses	(2,036,006)	(839,299)	(243,952)	(588,054)	(718,160)	(4,425,471)
Segment operating profit	1,559,813	4,048	591,297	137,561	1,064,309	3,357,028
Share of profit of associates and joint ventures	—	—	292,140	—	308,775	600,915
Profit before income tax	1,559,813	4,048	883,437	137,561	1,373,084	3,957,943
Interest income	2,083,398	85,577	111,635	19,580	166,926	2,467,116
Interest expenses	(933,093)	(484,659)	(26,185)	(47,092)	(242,095)	(1,733,124)
Depreciation and amortisation expenses	(22,618)	(6,352)	(2,375)	(40,383)	(73,553)	(145,281)
Net reversal of / (provision for) impairment loss on financial assets	53,253	(568)	3,891	8	(8,577)	48,007
Impairment loss on other assets	(769)	—	—	—	—	(769)
As at 31 December 2018						
Segment assets	138,579,673	83,486,332	70,659,010	23,639,713	117,330,040	433,694,768
Additions to non-current segment assets during the period	232,227	43,994	24,051	143,688	284,385	728,345
Segment liabilities	(135,301,554)	(81,533,946)	(51,412,688)	(15,390,296)	(45,306,680)	(328,945,164)

Reconciliations of segment revenues, profit or loss, assets and liabilities:

	For the three months ended 31 March	
	2019	2018
Revenue		
Total revenue and other income for segments	8,161,223	7,782,499
Elimination of inter-segment revenue	(812,179)	(1,500,451)
Consolidated revenue and other income	7,349,044	6,282,048
Profit		
Total profit before income tax for segments	4,274,958	3,957,943
Elimination of inter-segment profit	(797,338)	(1,492,006)
Consolidated profit before income tax	3,477,620	2,465,937

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 Segment reporting (continued)

(a) Business segments (continued)

	As at 31 March 2019	As at 31 December 2018
Assets		
Total assets for segments	507,975,775	433,694,768
Elimination of inter-segment assets	(62,533,481)	(65,028,894)
Consolidated total assets	<u>445,442,294</u>	<u>368,665,874</u>
Liabilities		
Total liabilities for segments	(400,046,499)	(328,945,164)
Elimination of inter-segment liabilities	62,533,481	65,028,894
Consolidated total liabilities	<u>(337,513,018)</u>	<u>(263,916,270)</u>

For the three months ended 31 March 2019 and 31 March 2018, the Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue.

(b) Geographical segments

The following table sets out information about the geographical location of: (i) the Group's revenue from external customers and (ii) the Group's property and equipment, investment properties, goodwill, other intangible assets, interest in associates and joint ventures, and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment and other non-current assets the location of the operation to which they are allocated, in the case of goodwill and other intangible assets and the location of operations, in the case of interest in associates and joint ventures.

	For the three months ended 31 March 2019			For the three months ended 31 March 2018		
	Mainland China	Overseas	Total	Mainland China	Overseas	Total
Segment revenue						
Revenue from external customers	6,329,126	806,710	7,135,836	5,381,177	710,792	6,091,969
Other income and gains	195,388	17,820	213,208	175,256	14,823	190,079
Total	6,524,514	824,530	7,349,044	5,556,433	725,615	6,282,048
	As at 31 March 2019			As at 31 December 2018		
	Mainland China	Overseas	Total	Mainland China	Overseas	Total
Specified non-current assets	19,399,022	6,963,174	26,362,196	18,163,311	6,970,012	25,133,323

54 Financial instruments and risk management

The Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(a) Credit risk (continued)

During the reporting period, the Group was exposed to three types of credit risk: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses arising from default of customers in credit business such as margin financing, securities lending, and securities-backed lending; (iii) counterparty credit risk from a counterparty's default on the derivative transaction, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives.

The Group uses its risk management systems to monitor its credit risk on a real time basis, keeps track of the credit risk of the Group's business products and its transaction counterparties, provides analyses and pre-warning reports, and adjusts its credit limits in a timely manner. The Group will also measure the credit risks of its major operations through stress test and sensitivity analysis.

For credit risk in debt securities trading, the Group monitors the issuer and bonds during the reporting period. The Group established the credit rating framework and conducted research on the debt securities held by the Group. The Group also assessed the creditability of counterparties to mitigate related default risk on regular basis. In respect of margin financing and securities lending, securities-backed lending and OTC derivative transaction, the Group evaluates the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determine the customers' credit rating. Penalties for defaults were specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending and OTC derivative transaction and promptly communicates with customers on any abnormalities identified to avoid defaults. In respect of innovative credit business, preliminary due diligence is performed with a comprehensive project feasibility report and a due diligence report submitted for approval by the Group before a project can be launched.

(i) Maximum exposure to credit risk

Maximum exposure to credit risk of the Group without taking account of any collateral and other credit enhancements:

	As at 31 March 2019	As at 31 December 2018
Debt investment at amortised cost	16,753,428	16,274,164
Refundable deposits	8,574,109	7,836,506
Accounts receivable	5,197,103	3,090,165
Other receivables and prepayments	594,775	572,509
Margin accounts receivable	57,933,520	46,188,885
Financial assets at fair value through other comprehensive income	770,798	606,809
Financial assets held under resale agreements	43,121,984	43,556,565
Financial assets at fair value through profit or loss	105,502,245	83,454,431
Derivative financial assets	948,145	1,933,958
Clearing settlement funds	2,089,949	3,023,370
Cash held on behalf of brokerage clients	86,062,127	58,947,013
Bank balances	35,255,089	28,200,401
Total maximum credit risk exposure	<u>362,803,272</u>	<u>293,684,776</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(a) Credit risk (continued)

(ii) Risk concentrations

The Group's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical area:

	By geographical area		
	Mainland China	Outside Mainland China	Total
31 March 2019			
Debt investment at amortised cost	14,425,983	2,327,445	16,753,428
Refundable deposits	8,423,263	150,846	8,574,109
Accounts receivable	4,012,639	1,184,464	5,197,103
Other receivables and prepayments	500,573	94,202	594,775
Margin accounts receivable	57,295,119	638,401	57,933,520
Financial assets at fair value through other comprehensive income	—	770,798	770,798
Financial assets held under resale agreements	42,936,748	185,236	43,121,984
Financial assets at fair value through profit or loss	102,117,707	3,384,538	105,502,245
Derivative financial assets	800,417	147,728	948,145
Clearing settlement funds	2,058,489	31,460	2,089,949
Cash held on behalf of brokerage clients	84,594,756	1,467,371	86,062,127
Bank balances	32,079,059	3,176,030	35,255,089
Total maximum credit risk exposure	349,244,753	13,558,519	362,803,272
	By geographical area		
	Mainland China	Outside Mainland China	Total
31 December 2018			
Debt investment at amortised cost	14,677,952	1,596,212	16,274,164
Refundable deposits	7,704,803	131,703	7,836,506
Accounts receivable	2,319,902	770,263	3,090,165
Other receivables and prepayments	454,639	117,870	572,509
Margin accounts receivable	45,387,683	801,202	46,188,885
Financial assets at fair value through other comprehensive income	—	606,809	606,809
Financial assets held under resale agreements	43,125,313	431,252	43,556,565
Financial assets at fair value through profit or loss	79,796,456	3,657,975	83,454,431
Derivative financial assets	1,689,781	244,177	1,933,958
Clearing settlement funds	3,023,370	—	3,023,370
Cash held on behalf of brokerage clients	57,760,803	1,186,210	58,947,013
Bank balances	24,244,112	3,956,289	28,200,401
Total maximum credit risk exposure	280,184,814	13,499,962	293,684,776

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating analysis of financial assets

The Group adopts credit rating method to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referred from major rating institutions in which debt issuers located. The carrying amounts of debt securities at the end of the reporting period are categorised by rating distribution as follows:

	As at 31 March 2019	As at 31 December 2018
Rating		
—AAA	45,571,152	39,834,929
—From A to AA+	15,115,464	16,303,374
—A-1	5,776,043	4,198,680
—C	9,761	110,195
Sub-total	<u>66,472,420</u>	<u>60,447,178</u>
Non-rated ⁽¹⁾	<u>52,543,319</u>	<u>37,322,568</u>
Total	<u><u>119,015,739</u></u>	<u><u>97,769,746</u></u>

(1) Non-rated financial assets mainly represent debt instruments issued by the Ministry of Finance of the People's Republic of China, the PBOC, and policy banks, which are creditworthy issuers in the market, private bonds and trading securities, which are not rated by independent rating agencies.

(b) Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes: (1) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small; (2) funding liquidity of being unable to meet financial obligations when they come due.

(Expressed in thousands of Renminbi, unless otherwise stated)

(b) Liquidity risk (continued)

F-305

As at 31 March 2019									
	Carrying amount	Overdue / repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Undated	Total
Financial liabilities									
Short-term bank loans	1,475,240	—	1,206,636	272,173	—	—	—	—	1,478,809
Short-term debt instruments issued	25,587,385	—	5,770,368	12,323,219	7,637,218	—	—	—	25,730,805
Placements from other financial institutions	3,178,980	—	1,120,601	1,043,335	1,048,945	—	—	—	3,212,881
Accounts payable to brokerage clients	90,133,775	90,133,775	—	—	—	—	—	—	90,133,775
Other payables and accruals	75,622,120	80,677,985	903,485	151,430	1,159,547	459,635	17,445	—	83,369,527
Financial assets sold under repurchase agreements	56,375,900	—	42,514,929	2,521,714	11,576,951	—	—	—	56,613,594
Derivative financial liabilities	1,854,297	—	129,496	481,102	1,138,869	104,830	—	—	1,854,297
Financial liabilities at fair value through profit or loss	4,419,601	102,793	173,588	94,461	1,649,764	888,071	1,556,569	—	4,465,246
Long-term bonds	67,138,203	—	5,249,000	5,072,000	16,981,505	45,199,100	—	—	72,501,605
Long-term bank loans	1,662,280	—	—	31,287	92,509	472,063	1,418,960	—	2,014,819
Total	327,447,781	170,914,553	57,068,103	21,990,721	41,285,308	47,123,699	2,992,974	—	341,375,358

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(b) Liquidity risk (continued)

As at 31 December 2018							
	Carrying amount	Overdue/repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
						Undated	Total
Financial Liabilities							
Short-term bank loans	3,015,791	—	165,261	2,867,724	—	—	3,032,985
Short-term debt instruments issued	21,124,000	—	6,515,309	3,482,311	11,303,298	—	21,300,918
Placements from other financial institutions	5,813,487	—	2,253,743	1,538,145	2,092,280	—	5,884,168
Accounts payable to brokerage clients	59,492,176	59,492,176	—	—	—	—	59,492,176
Other payables and accruals	53,230,787	50,987,984	1,119,981	172,822	950,000	—	53,230,787
Financial assets sold under repurchase agreements	40,095,054	—	33,068,056	1,230,345	6,120,944	—	40,419,345
Derivative financial liabilities	776,102	—	50,956	56,894	619,985	48,267	776,102
Financial liabilities at fair value through profit or loss	5,199,989	1,438,580	1,436,991	—	—	888,070	5,200,976
Long-term bonds	62,890,730	—	—	3,154,579	23,754,207	40,974,348	67,883,134
Long-term bank loans	1,698,769	—	—	31,974	94,539	482,426	2,059,047
Total	253,336,885	111,918,740	44,610,297	12,534,794	44,935,253	42,393,111	259,279,638

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(c) Market risk

Market risk is the risk of loss, in respect of the Group's income and value of financial instruments held, arising from the adverse market movements such as changes in interest rates, stock prices, foreign exchange rates and so on. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximise the risk adjusted return.

(i) Interest rate risk

Interest rate risk refers to the likelihood of loss that may arise from adverse movements in the market interest rate. The Group's interest rate risk mainly arises from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities.

The Group mainly manages interest rate risk through structuring and adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risks and improving profitability by diversification of assets.

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The following tables indicate the assets and liabilities as at the end of the reporting periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

	As at 31 March 2019					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing
Financial assets						
Debt investment at amortised cost	297,759	430,063	1,781,565	13,634,602	259,635	349,804
Financial assets at fair value through other comprehensive income	—	—	471,410	162,229	137,159	10,617,684
Financial assets held under resale agreements	25,428,090	4,183,319	12,517,747	454,862	—	537,966
Refundable deposits	1,809,330	—	—	—	—	6,764,779
Accounts receivable	—	—	—	—	—	5,197,103
Other receivables and prepayments	—	—	—	—	—	594,775
Margin accounts receivable	1,977,037	8,418,120	44,883,246	—	—	2,655,117
Financial assets at fair value through profit or loss	1,822,613	4,218,721	27,904,837	62,294,997	6,398,252	47,521,112
Derivative financial assets	8,503	—	—	—	—	939,642
Clearing settlement funds	2,089,740	—	—	—	—	209
Cash held on behalf of brokerage clients	85,997,145	—	—	—	—	64,982
Cash and bank balances	27,181,753	6,750,000	1,292,019	—	—	31,361
Total	146,611,970	24,000,223	88,850,824	76,546,690	6,795,046	75,274,534
						418,079,287

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	As at 31 March 2019					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing
Financial liabilities						Total
Short-term bank loans	(1,203,552)	(269,348)	—	—	—	(2,340)
Short-term debt instruments issued	(5,765,100)	(12,049,670)	(7,561,735)	—	—	(210,880)
Placements from other financial institutions	(1,120,000)	(995,424)	(972,983)	—	—	(90,573)
Accounts payable to brokerage clients	(90,133,775)	—	—	—	—	—
Other payables and accruals	(18,516)	(65,945)	(164,844)	(424,042)	(12,110)	(74,936,663)
Financial assets sold under repurchase agreements	(42,481,210)	(2,488,881)	(11,302,722)	—	—	(103,087)
Derivative financial liabilities	—	—	—	—	—	(1,854,297)
Financial liabilities at fair value through profit or loss	(181,391)	(83,666)	(1,625,853)	—	—	(2,528,691)
Long-term bonds	(5,000,000)	(4,100,000)	(15,115,236)	(41,283,618)	—	(1,639,349)
Long-term bank loans	—	(16,876)	—	—	(1,645,404)	—
Total	(145,903,544)	(20,069,810)	(36,743,373)	(41,707,660)	(1,657,514)	(81,365,880)
Net interest rate risk exposure	708,426	3,930,413	52,107,451	34,839,030	5,137,532	(6,091,346)
						90,631,506

For the three months ended 31 March 2019

54 Financial instruments and risk management (continued)

(i) Interest rate risk (continued)

F-310

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	As at 31 December 2018					
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing
Financial liabilities						Total
Short-term bank loans	(163,877)	(2,836,073)	—	—	—	(15,841)
Short-term debt instruments issued	(6,494,544)	(3,431,230)	(11,022,776)	—	—	(175,450)
Placements from other financial institutions	(2,250,000)	(1,500,000)	(1,968,407)	—	—	(95,080)
Accounts payable to brokerage clients	(59,492,176)	—	—	—	—	—
Other payables and accruals	—	—	—	—	—	(53,230,787)
Financial assets sold under repurchase agreements	(32,878,970)	(1,161,319)	(5,990,074)	—	—	(64,691)
Derivative financial liabilities	(1,129)	—	—	—	—	(774,973)
Financial liabilities at fair value through profit or loss	(1,423,000)	—	—	—	—	(3,776,989)
Long-term bonds	—	(3,000,000)	(21,418,737)	(37,285,873)	—	(1,186,120)
Long-term bank loans	—	(15,820)	—	—	(1,682,949)	—
Total	(102,703,696)	(11,944,442)	(40,399,994)	(37,285,873)	(1,682,949)	(59,319,931)
Net interest rate risk exposure	11,987,226	11,749,826	40,884,257	16,344,278	2,208,552	5,813,811
						88,987,950

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net profit and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit	
	31 March 2019	31 December 2018
Move in yield curve		
Up 100 basis points	(991,948)	(704,860)
Down 100 basis points	1,022,021	726,215

	Sensitivity of equity	
	31 March 2019	31 December 2018
Move in yield curve		
Up 100 basis points	(991,948)	(704,860)
Down 100 basis points	1,022,021	726,215

The sensitivity analysis above indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(ii) Currency risk

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation of foreign exchange rates. The Group adopts sensitivity analysis to measure currency risk.

Assuming all other risk variables remained constant and without consideration of risk management measures undertaken by the Group, a 10% strengthening of the RMB against the US dollar ("USD") and HKD at the reporting date would have decreased the Group's equity and net profit by the amount shown below, whose effect is in RMB and translated using the spot rate at the reporting date:

Currency	Sensitivity of net profit	
	31 March 2019	31 December 2018
USD	(429,963)	(437,566)
HKD	(218,572)	(214,459)

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

<u>Currency</u>	<u>Sensitivity of equity</u>	
	<u>31 March 2019</u>	<u>31 December 2018</u>
USD	(457,448)	(465,640)
HKD	(240,692)	(237,053)

A 10% weakening of the RMB against the USD and HKD at balance date would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

Due to the above assumptions, the result of sensitivity analysis on exchange rate changes may be different, compared with the actual changes in the Group's net profit and equity, may arise with this.

(iii) Price risk

The Group is exposed to equity price changes arising from equity investments concluded in financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income. Price risk the Group facing is mainly the proportionate fluctuation in the Group's net profits due to the price fluctuation of the financial instruments at fair value through profit or loss and the proportionate fluctuation in the Group's equity due to the price fluctuation of the financial instruments measured at fair value.

Sensitivity analysis

The analysis below is performed to show the impact on the Group's net profit and equity due to change in the prices of equity securities by 10% with all other variables held constant.

	<u>Sensitivity of net profit</u>	
	<u>31 March 2019</u>	<u>31 December 2018</u>
Increase by 10%	2,839,849	2,347,521
Decrease by 10%	(2,839,849)	(2,347,521)

	<u>Sensitivity of equity</u>	
	<u>31 March 2019</u>	<u>31 December 2018</u>
Increase by 10%	3,636,175	3,086,266
Decrease by 10%	(3,636,175)	(3,086,266)

The sensitivity analysis indicates the instantaneous change in the Group's net profit and equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables,

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(c) Market risk (continued)

(iii) Price risk (continued)

and that all other variables remain constant. The analysis is performed on the same basis for the three months ended 31 March 2019 and the year of 2018.

(d) Capital management

The Group's objectives of capital management are:

- (i) To safeguard the Group's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's stability and growth;
- (iii) To maintain a strong capital base to support the development of their business; and
- (iv) To comply with the capital requirements under the PRC and overseas regulations.

As at 16 June 2016, Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Revised Administrative Measures") and Calculation Standard for Risk Control Indicators of Securities Companies were issued by the CSRC. The Company is required to meet the following standards for risk control indicators on a continual basis from 1 October 2016:

- (i) The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
- (ii) The ratio of net capital divided by net assets shall be no less than 20% ("Ratio 2");
- (iii) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");
- (iv) The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio 4");
- (v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5");
- (vi) The ratio of the value of non-equity securities and derivatives held divided by net capital shall not exceed 500% ("Ratio 6");
- (vii) The ratio of core net capital divided by on balance sheet and off balance sheet assets shall be no less than 8% ("Ratio 7");
- (viii) The ratio of high quality liquidity assets divided by net cash outflows for the next 30 days shall be no less than 100% ("Ratio 8");
- (ix) The ratio of available stable funds divided by required stable funds shall be no less than 100% ("Ratio 9"); and
- (x) The ratio of margin financing (including securities lending) divided by net capital shall not exceed 400% ("Ratio 10").

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

During the period, the Company monitored the above ratios closely to maintain these ratios in compliance with the relevant capital requirements.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(d) Capital management (continued)

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements under the PRC imposed by the CSRC. These subsidiaries comply with the capital requirements during the period ended 31 March 2019 and the year ended 31 December 2018.

(e) Transfer of financial assets

The Group transferred financial assets to certain counterparties through repurchase agreements, securities lending and asset-backed securities scheme. These securities, margin accounts receivable and securities-backed lending are not derecognised from the consolidated statement of financial position because the Group retains substantially all the risks and rewards of these securities, margin loans and securities-backed lending.

The Group entered into repurchase agreements with certain counterparties to sell debt securities classified as financial assets at fair value through profit or loss, margin accounts receivable and financial assets held under resale agreements. Sales and repurchase agreements are transactions in which the Group sell a security, rights and interests in a margin accounts receivable or securities-backed lending and agree to repurchase it at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests sold. These securities, margin accounts receivable and financial assets held under resale agreements are not derecognised from the consolidated statement of financial position because the Group retains substantially all the risks and rewards of these financial assets.

The Group entered into securities lending agreements with clients to lend out its equity securities and exchange-traded funds classified as financial assets at fair value through profit or loss. As stipulated in the securities lending agreements, the legal ownership of these equity securities and exchange-traded funds is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised these securities in the consolidated statement of financial position.

The Group sells margin accounts receivable to the securitisation vehicle, which in turn issue asset-backed securities to investors with the purchased assets as the underlying assets. Such securitisation vehicle is consolidated by the Group, consequently the underlying assets are transferred from the Group to the investors. The Group has the obligation to pass cash flows from the underlying assets to the investors.

The cash flows that the securitisation vehicle collect from the transferred assets has not been passed through to investors without material delay, and the Group has the obligation to repurchase these margin accounts receivable on specified future dates and at agreed-upon prices. Thus the Group has not derecognised these financial assets in the consolidated statements of financial position. The consideration received from the investors is recognised as a financial liability.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 Financial instruments and risk management (continued)

(e) Transfer of financial assets (continued)

The following tables provide a summary of carrying amounts and fair value of the transferred financial assets that are not derecognised in their entirety and the associated liabilities:

As at 31 March 2019

	Financial assets at fair value through profit or loss		Margin accounts receivable		Total
	Sales and repurchase agreements	Securities lending	Margin loans receivable backed repurchase	Asset- backed securities	
Carrying amount of transferred assets . . .	1,141,010	806,190	516,522	1,093,235	3,556,957
Carrying amount of associated liabilities	(1,051,531)	—	(500,000)	(950,000)	(2,501,531)
Net position	<u>89,479</u>	<u>806,190</u>	<u>16,522</u>	<u>143,235</u>	<u>1,055,426</u>

As at 31 December 2018

	Financial assets at fair value through profit or loss		Margin accounts receivable		Total
	Sales and repurchase agreements	Securities lending	Margin loans receivable backed repurchase	Asset- backed securities	
Carrying amount of transferred assets	1,864,902	1,168,461	1,650,302	1,077,838	5,761,503
Carrying amount of associated liabilities	(1,714,862)	—	(1,000,000)	(950,000)	(3,664,862)
Net position	<u>150,040</u>	<u>1,168,461</u>	<u>650,302</u>	<u>127,838</u>	<u>2,096,641</u>

55 Fair value information

(a) Fair value of financial instruments

The Group adopts the following methods and assumptions when evaluating fair value:

- Financial assets including cash and bank balances, cash held on behalf of brokerage clients, clearing settlement funds, financial assets held under resale agreements, current debt investment at amortised cost and financial liabilities including placements from other financial institutions, short-term debt instruments issued, short-term bank loans and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate the fair value.
- Financial instruments at fair value through profit or loss, derivatives and financial assets at fair value through other comprehensive income are stated at fair value unless the fair value cannot be reliably measured. For the financial instruments traded in active open markets, the Group uses market prices or market rates as the best estimate for their fair value. For

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

55 Fair value information (continued)

(a) Fair value of financial instruments (continued)

the financial instruments without any market price or market rate, the Group determines the fair value of these financial assets and financial liabilities by discounted cash flow or other valuation methods.

- (iii) The fair value of non-current debt investment at amortised cost investments and long-term bonds are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as credit risk and maturity, to estimate the fair value using pricing models or discounted cash flow.
- (iv) Accounts receivable, margin accounts receivable, and accounts payable to brokerage clients are within one year. Accordingly, the carrying amounts approximate the fair value.

(b) Fair value of other financial instruments (carried at other than fair value)

The carrying amount and fair value of debt investment at amortised cost investments, short-term debt instruments issued and long-term bonds which are not presented at fair value are listed as below:

Carrying amount

	As at 31 March 2019	As at 31 December 2018
<i>Financial assets</i>		
—Debt investment at amortised cost	16,753,428	16,274,164
Total	<u>16,753,428</u>	<u>16,274,164</u>
<i>Financial liabilities</i>		
—Short-term debt instruments issued	(25,587,385)	(21,124,000)
—Long-term bonds	(67,138,203)	(62,890,730)
Total	<u>(92,725,588)</u>	<u>(84,014,730)</u>

Fair value

	As at 31 March 2019			
	Level I	Level II	Level III	Total
<i>Financial assets</i>				
—Debt investment at amortised cost	8,804,337	6,871,920	1,271,786	16,948,043
<i>Financial liabilities</i>				
—Short-term debt instruments issued	4,797,860	—	20,802,107	25,599,967
—Long-term bonds	63,247,356	—	3,925,699	67,173,055
Total	<u>68,045,216</u>	<u>—</u>	<u>24,727,806</u>	<u>92,773,022</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

55 Fair value information (continued)

(b) Fair value of other financial instruments (carried at other than fair value) (continued)

	As at 31 December 2018			
	Level I	Level II	Level III	Total
<i>Financial assets</i>				
—Debt investment at amortised cost	8,838,870	6,814,493	790,388	16,443,751
Total	<u>8,838,870</u>	<u>6,814,493</u>	<u>790,388</u>	<u>16,443,751</u>
<i>Financial liabilities</i>				
—Short-term debt instruments issued	4,726,656	—	16,396,082	21,122,738
—Long-term bonds	<u>58,359,085</u>	<u>—</u>	<u>4,382,589</u>	<u>62,741,674</u>
Total	<u>63,085,741</u>	<u>—</u>	<u>20,778,671</u>	<u>83,864,412</u>

The fair value of the financial assets and financial liabilities included in the level II and III categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost less impairment in the Group's consolidated statements of financial position approximate their fair value.

(c) Fair value hierarchy

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	As at 31 March 2019			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
—Debt securities	58,694,806	45,460,731	540,518	104,696,055
—Equity securities	8,957,780	1,243,082	3,220,904	13,421,766
—Funds	21,316,389	401,089	—	21,717,478
—Wealth management products	—	8,874,734	1,450,499	10,325,233
Financial assets at fair value through other comprehensive income				
—Equity securities	—	10,535,390	82,294	10,617,684
—Debt securities	170,964	—	—	170,964
—Other investments	—	—	599,834	599,834
Derivative financial assets	17,197	555,308	375,640	948,145
Total	<u>89,157,136</u>	<u>67,070,334</u>	<u>6,269,689</u>	<u>162,497,159</u>

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

55 Fair value information (continued)

(c) Fair value hierarchy (continued)

As at 31 March 2019				
	Level I	Level II	Level III	Total
Liabilities				
Financial liabilities at fair value through profit or loss				
—Financial liabilities held for trading	(71,892)	(1,827,711)	—	(1,899,603)
—Financial liabilities designated at fair value through profit or loss	—	(75,358)	(2,444,640)	(2,519,998)
Derivative financial liabilities	(25,720)	(388,799)	(1,439,778)	(1,854,297)
Total	(97,612)	(2,291,868)	(3,884,418)	(6,273,898)
As at 31 December 2018				
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
—Debt securities	49,282,012	32,465,985	537,973	82,285,970
—Equity securities	6,614,477	685,014	3,072,924	10,372,415
—Funds	22,345,570	432,345	—	22,777,915
—Wealth management products	—	5,385,666	1,422,366	6,808,032
Financial assets at fair value through other comprehensive income				
—Equity securities	—	9,767,639	82,294	9,849,933
—Other investments	—	—	606,810	606,810
Derivative financial assets	16,646	338,702	1,578,610	1,933,958
Total	78,258,705	49,075,351	7,300,977	134,635,033
Liabilities				
Financial liabilities at fair value through profit or loss				
—Financial liabilities held for trading	(1,436,332)	(1,376,525)	—	(2,812,857)
—Financial liabilities designated at fair value through profit or loss	—	(61,727)	(2,325,405)	(2,387,132)
Derivative financial liabilities	(13,515)	(441,034)	(321,553)	(776,102)
Total	(1,449,847)	(1,879,286)	(2,646,958)	(5,976,091)

For the three months ended 31 March 2019, there was a transfer of amount RMB33,555 thousand from level I to level II due to its active trading as at 31 December 2018 while suspended from trading as at 31 March 2019. There was a transfer of amount RMB20,803 thousand from level II to level I due to the securities trade resumption. There was a transfer of amount RMB22,988 thousand from Level II to Level III due to the delisting of equity securities.

For the year ended 31 December 2018, there was a transfer of amount RMB126,000 thousand from Level II to Level I due to its lifting of restricted stocks. There was a transfer of amount RMB106,947 thousand from level II to level III due to the delisting of equity securities. There was a transfer of amount RMB529,291 thousand from level III to level II due to the listing of equity securities with lock-up period.

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

55 Fair value information (continued)

(c) Fair value hierarchy (continued)

(i) Financial instruments in Level I

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 I. Instruments included in Level I comprise primarily securities traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange classified as financial assets at fair value through profit or loss and the corresponding liabilities of the securities.

(ii) Financial instruments in Level II and Level III

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise 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 II.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level III.

(iii) Valuation methods for specific investments

As at 31 March 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. For those which has no quoted market price or those with lock-up periods as at the reporting date, valuation techniques are used to determine the fair value.
- (2) For exchange-listed 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-end funds and wealth 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, fair value is determined based on the closing price within bid-ask spread of the debt securities at the date of statements of financial position.
- (4) For debt securities traded through the inter-bank bond market and OTC market, fair value is determined using valuation techniques.
- (5) For gold leasing and derivative financial instruments, fair value is determined using valuation techniques.

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Fair value information (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 31 December 2018	5,033,263	689,104	1,578,610	(2,325,405)	(321,553)	4,654,019
Gains or losses for the period	165,335	—	(1,175,525)	(180,459)	(52,314)	(1,242,963)
Changes in fair value recognised in other comprehensive income	—	(66,040)	—	—	—	(66,040)
Purchases	102,690	59,064	43,312	—	(1,029,200)	(824,134)
Sales and settlements	(89,367)	—	(70,757)	61,224	(36,711)	(135,611)
As at 31 March 2019	5,211,921	682,128	375,640	(2,444,640)	(1,439,778)	2,385,271
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	165,334	—	(1,224,193)	(180,459)	(139,280)	(1,378,598)

Notes to the unaudited condensed consolidated financial statements (continued)

For the three months ended 31 March 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

55 Fair value information (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III (continued)

	Financial assets at fair value through comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Total
As at 31 December 2017	—	254,601	(2,345,668)	(226,485)	5,392,733
Impact on initial application of IFRS 9	65,994	—	—	—	—
As at 1 January 2018	65,994	254,601	(2,345,668)	(226,485)	5,392,733
Gains or losses for the year	(449)	2,647,285	185,887	364,538	4,190,688
Changes in fair value recognised in other comprehensive income	38,344	—	—	—	38,344
Purchases	585,215	176,691	—	(213,465)	2,895,925
Sales and settlements	—	(1,499,967)	(165,624)	(246,141)	(7,863,671)
As at 31 December 2018	689,104	1,578,610	(2,325,405)	(321,553)	4,654,019
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	—	1,264,360	185,887	82,845	2,379,881

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

55 Fair value information (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III (continued)

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III 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 III

<u>Financial assets and liabilities</u>	<u>Fair value hierarchy</u>	<u>Valuation technique(s) and key input(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Wealth management products and private placement bonds	Level III	Discounted cash flow model	Risk adjusted discount rate	The higher the risk adjusted discount rate, the lower the fair value
Unlisted equity investment	Level III	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value
Financial liabilities arising from consolidation of private equity funds	Level III	Market comparable companies of the underlying portfolios	Discount for lack of marketability	The higher the discount, the lower the fair value
Over-the-counter options	Level III	Black-Scholes option pricing model	Price volatility of underlying assets	The higher the price volatility, the greater the impact on the fair value
		Monte-Carlo option pricing model	Price volatility of underlying assets	The higher the price volatility, the greater the impact on the fair value

Notes to the unaudited condensed consolidated financial statements (continued)
For the three months ended 31 March 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

56 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 31 March 2019

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated interim financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Sales or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Available for optional adoption

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position

57 Events after the reporting date

(a) Issuance of bonds

On 22 April 2019, the Company has publicly issued 3-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.80% to qualified investors. On 25 April 2019, the Company has issued short-term debt instruments of RMB3 billion, bearing interest at 3.00%.

On 23 May 2019, the Company's subsidiary Pioneer Reward Limited has publicly issued 3-year United States dollar denominated bond which was unconditionally and irrevocably guaranteed by the Company, with a nominal amount of USD500 million and bearing interest at 3.375%.

On 27 May 2019, the Company has non-publicly issued a 3-year corporate bond with a nominal amount of RMB5 billion, bearing interest at 3.94% to qualified investors.

(b) Profit distribution plan after accounting periods

On 5 June 2019, the Board amended the previous dividend distribution plan (see Note 48) and re-proposed the cash dividends of RMB3.00 (tax inclusive) per 10 ordinary shares distributed to holders of A Shares and H Shares whose names appear on the register of members of the Company as of the record date. The aggregate amount of cash dividends to be distributed will be determined based on the number of total ordinary shares (including the Global Depository Receipts representing A shares that the Company plans to issue) as of the record date, which will be decided and approved by the Company separately.

The proposal is pending for the approval of the general meeting of the shareholders. The cash dividends are not recognised as a liability as at 31 March 2019.

THE COMPANY

Huatai Securities Co., Ltd.
No. 228 Middle Jiangdong Road
Nanjing
Jiangsu Province 210019
People's Republic of China

JOINT GLOBAL CO-ORDINATORS AND JOINT BOOKRUNNERS

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

**Huatai Financial Holdings
(Hong Kong) Limited**
Room 5808-12, 58/F, The Center
99 Queen's Road Central
Hong Kong

**Morgan Stanley & Co.
International plc**
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

JOINT BOOKRUNNERS

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5MQ
United Kingdom

LEGAL ADVISORS TO THE COMPANY

As to English law
Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

As to US and Hong Kong laws
Clifford Chance
27th Floor, Jardine House
One Connaught Place
Hong Kong

As to PRC law
Fangda Partners
24/F, HKRI Centre Two, HKRI
Taikoo Hui
288 Shi Men Yi Road
Shanghai 200041
China

LEGAL ADVISERS TO THE BANKS

As to English law
Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

As to US and Hong Kong laws
Linklaters
10th Floor, Alexandra House
Chater Road
Hong Kong

As to PRC law
King & Wood Mallesons
18th Floor, East Tower,
World Financial Center 1
Dongsanhuan Zhonglu,
Chaoyang District,
Beijing 100020
P. R. China

INDEPENDENT AUDITOR TO THE COMPANY

KPMG Huazhen LLP
8/F, KPMG Tower, Oriental Plaza
1 East Chang'an Avenue
Beijing
PRC

DEPOSITARY

Citibank, N.A.
388 Greenwich Street
6th Floor North
New York, New York 10013
United States of America