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(A joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name “东方证券股份有限公司” and carrying on business in Hong Kong as “東方證券” (in Chinese) and “DFZQ” (in English))

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IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.



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Number of [REDACTED] under the [REDACTED]	[REDACTED] H Shares (subject to the [REDACTED])
Number of [REDACTED]	[REDACTED] H Shares (subject to adjustment)
Number of [REDACTED]	[REDACTED] H Shares (subject to adjustment and the [REDACTED])
Maximum [REDACTED]	HK\$[REDACTED] per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	RMB1.00 per H share

[REDACTED]

Joint Sponsors

**Goldman
Sachs**

NOMURA

[REDACTED]



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The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (on behalf of the [REDACTED]) and us on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] (Hong Kong time) and, in any event, not later than [REDACTED] (Hong Kong time). The [REDACTED] will be not more than HK\$[REDACTED] and is currently expected to be not less than HK\$[REDACTED] per [REDACTED]. If, for any reason, the [REDACTED] is not agreed by [REDACTED] (Hong Kong time) between the [REDACTED] (on behalf of the [REDACTED]) and us, the [REDACTED] will not proceed and will lapse.

Applicants for [REDACTED] are required to pay, on application, the maximum [REDACTED] of HK\$[REDACTED] for each [REDACTED] together with brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the [REDACTED] as finally determined is less than HK\$[REDACTED].

The [REDACTED], on behalf of the [REDACTED], and with our consent may, where considered appropriate, reduce the number of [REDACTED] and/or the indicative [REDACTED] range below that is stated in this document (which is HK\$[REDACTED] to HK\$[REDACTED]) at any time prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, notices of the reduction in the number of [REDACTED] and/or the indicative [REDACTED] range will be published in the [South China Morning Post] (in English) and the [Hong Kong Economic Times] (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. Such notices will also be available on the website of our Company at www.dfzq.com.cn and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in “Structure of the [REDACTED]” and “How to Apply for [REDACTED]” in this document.

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

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. See “Underwriting—Underwriting [REDACTED] and Expenses—[REDACTED]—Grounds for Termination” of this document.

We have not been and will not be registered under the U.S. Investment Company Act. The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered or sold in the United States, or to or for the account or benefit of any U.S. person, except pursuant to an exemption from, or in a transaction that is not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being [REDACTED] and sold in the United States in reliance on Rule 144A, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act, only to QIBs who are also QPs. The [REDACTED] may be [REDACTED], sold or delivered outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S.

[REDACTED], 2016

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

CONTENTS

This document is issued by our Company solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] or the distribution of this document in any jurisdictions other than Hong Kong. The distribution of this document and the [REDACTED] and sale of the [REDACTED] in other jurisdiction are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this document and the [REDACTED] to make your investment decision. We have not authorized anyone to provide you with information that is different from that contained in this document. Any information or representation not included in this document must not be relied on by you as having been authorized by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of our or their respective directors or advisors, or any other person or party involved in the [REDACTED]. Information contained on our website, located at www.dfzq.com.cn, does not form part of this document.

We are a joint stock company incorporated in the PRC with limited liability under the Chinese corporate name “东方证券股份有限公司” and carrying on business in Hong Kong as “東方證券” (in Chinese) and “DFZQ” (in English). We are not in any way connected with or related to 東方滙財證券有限公司 (ORIENT SECURITIES LIMITED) or any of its associates.

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SUMMARY

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

OVERVIEW

We are a leading and fast-growing capital markets service provider in China with distinguished investment expertise. We have built successful investment management and trading as well as wealth management businesses by leveraging our strong foundation in Shanghai and nationwide network. According to Wind Info and financial information of listed companies, we ranked 10th by net assets and operating income, 9th by net profit and 12th by total assets as of and for the six months ended June 30, 2015 among PRC securities firms.

We provide comprehensive financial products and services to our clients. We have achieved industry-leading positions in many of our business segments through prudent operations and strong execution. By capturing opportunities driven by business innovation and market development of the PRC securities industry, we have grown rapidly. We were successfully listed on the Shanghai Stock Exchange on March 23, 2015. As of and for the year ended December 31, 2015, our total assets and net assets amounted to RMB207.9 billion and RMB35.4 billion, respectively, and our total revenue and profit for the year amounted to RMB20.3 billion and RMB7.4 billion. As of December 31, 2015, we had 120 securities branches in all 31 provinces in China. In addition, we have established Orient Finance Hong Kong to spearhead our overseas business. Our extensive geographic presence enables us to serve a broad customer base. As of December 31, 2015, we had approximately 900,000 clients.

We have established a comprehensive risk management system and an effective internal control mechanism, which integrate our risk management, compliance management and internal control functions. During the Track Record Period, we were not subject to any administrative penalties. We have received AA or A regulatory rating for six consecutive years (AA rating being the highest rating ever received by PRC securities firms) since 2010, when CSRC started publishing classification evaluation results for securities firms.

Our Business Model

We primarily provide the following financial services to individual, institutional and corporate clients:

- **Wealth Management**

We engage in securities brokerage business and futures brokerage business, provide various securities financing services, such as margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions, and distribute various financial products issued by financial institutions. According to Shanghai Stock Exchange and Shenzhen Stock Exchange, our trading volume of stocks and funds on

SUMMARY

behalf of our clients reached RMB6,511.4 billion in 2015. According to the same source, we ranked 9th among PRC securities firms by volume of collateralized stock repurchase transactions in 2015.

- **Investment Management and Trading**

- We provide our clients with asset management products. In addition, we conduct fund management business through China Universal, an associate in which we are the largest shareholder with 39.96% equity interest. We also engage in private equity investment business. For asset management business, we focus on developing discretionary management products with an objective to achieve absolute return for our clients. As of December 31, 2015, the total AUM of our asset management business was RMB107.9 billion, with discretionary management products accounting for 89.7% of the AUM. In addition, as of December 31, 2015, the total AUM of China Universal was RMB467.3 billion, with mutual funds accounting for 54.0% of the AUM; and
- We invest in equity, fixed income and derivatives for our own account. We have also successfully launched the NEEQ market-making business and alternative investment business. In addition, we provide securities research and prime brokerage services to institutional clients. In 2013, 2014 and 2015, the average return of our securities investment was 14.4%, 27.6% and 44.5%, respectively. According to the statistics of NEEQ Company, we ranked 3rd among all market makers in terms of the NEEQ market-making volume in 2015. According to China Foreign Exchange Trade System, we ranked in the top 5 among all the securities-firm trial market makers in China in terms of fixed income market making volume in each month of 2015.

- **Investment Banking**

We provide a full spectrum of investment banking service including equity underwriting and sponsorship, debt underwriting and financial advisory. Our investment banking business is conducted mainly through Citi Orient, a subsidiary in which we hold 66.67% equity interest, as well as our Fixed Income Department. As of December 31, 2015, Citi Orient had 17 IPOs pending CSRC review or listing, ranking 2nd in terms of the number of transactions in the pipeline among joint venture securities firms with international investors. According to Wind Info, Citi Orient ranked 1st by number of M&A transactions announced in 2015 among joint venture securities firms with international investors.

Competitive Strengths

We are a leading and fast-growing capital markets service provider in China with distinguished investment expertise. We have built successful investment management and trading as well as wealth management businesses by leveraging our strong foundation in Shanghai and nationwide network. We believe the following strengths have contributed to our success and differentiate us from our competitors:

- An industry-leading and fast-growing nationwide provider of capital markets services;
- Strong investment management and trading capabilities with a proven track record;

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- Fast-growing wealth management business with a strong foundation in Shanghai;
- Strong track record of innovation resulting in revenue diversification and rapid growth;
- Highly market-oriented operating and management mechanism with strong synergies;
- Prudent, efficient and comprehensive risk management system; and
- Stable and experienced management team and high caliber professionals.

Business Strategies

We aim to become a leading provider of comprehensive financial services. We plan to achieve our goals through the following strategies:

- Further enhance collaborative operations and client-oriented comprehensive financial services platform to provide one-stop services;
- Further strengthen our wealth management business to build up our core competitiveness;
- Leverage our expertise in investment management and trading, strengthen our active asset management business and build a leading investment management brand;
- Continue to innovate and expand our international business for future growth;
- Further strengthen prudent risk management and lay a solid foundation for business development; and
- Further optimize our system for talent development and performance evaluation and enhance corporate culture.

SUMMARY OF FINANCIAL AND OPERATING INFORMATION

You should read the summary of historical consolidated financial statements set forth below in conjunction with the consolidated financial statements included in the Accountants’ Report set forth in “Appendix I—Accountants’ Report” to this document, together with the accompanying notes, which have been prepared in accordance with IFRS. The summary of audited historical consolidated statement of profit and loss and other comprehensive income statements for the year ended December 31, 2013, 2014 and 2015 and the consolidated statements of financial position as of December 31, 2013, 2014 and 2015 set forth below are extracted from the consolidated financial statements, including the notes thereto, which are set forth in “Appendix I—Accountants’ Report” to this document.

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Summary of Consolidated Statements of Profit or Loss

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Revenue			
Commission and fee income	1,783.8	2,459.9	6,621.0
Interest income	606.5	1,446.2	4,289.7
Net investment gains	2,149.3	3,906.3	9,341.9
Total revenue	4,539.6	7,812.4	20,252.6
Other income and gains	46.9	75.5	206.7
Total revenue and other income	4,586.5	7,887.9	20,459.3
Total expenses	(3,576.0)	(5,090.3)	(11,396.5)
Operating profit	1,010.5	2,797.6	9,062.8
Share of results of associates	123.7	136.1	436.3
Profit before income tax	1,134.2	2,933.7	9,499.1
Income tax expense	(151.9)	(575.0)	(2,124.9)
Profit for the year	982.3	2,358.7	7,374.2
Attributable to shareholders of the Company	1,007.4	2,341.7	7,325.2
Attributable to non-controlling interests	(25.1)	17.0	49.0

Our total revenue and other income increased by 72.0% from RMB4,586.5 million in 2013 to RMB7,887.9 million in 2014 and further increased by 159.4% to RMB20,459.3 million in 2015. The increase in total revenue and other income primarily reflects: (i) an increase in income from our wealth management businesses as a result of increased trading activity of the A share market; (ii) the overall strong performance of our asset management schemes in our investment management business, which led to an increase in our performance fees, and a significant increase in our AUM and the resulting growth of our asset management fees; and (iii) an increase in our net investment gains from our fixed income as well as equity securities investments as we captured investment opportunities while actively managing our risks through risk control measures.

Details of our results of operations and segment results during the Track Record Period, please refer to “Financial Information—Results of Operations” and “Financial Information—Summary Segment Results.”

Summary of Consolidated Statements of Financial Position

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Current assets	54,593.8	95,175.1	181,951.8
Non-current assets	6,258.7	12,355.0	25,945.8
Total assets	60,852.5	107,530.1	207,897.6
Current liabilities	40,585.3	75,267.0	112,763.6
Non-current liabilities	4,489.1	13,637.6	59,758.2
Total liabilities	45,074.4	88,904.6	172,521.8
Total equity	15,778.1	18,625.5	35,375.8
Attributable to shareholders of the Company	15,550.3	18,353.1	34,958.1

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Summary of Consolidated Statements of Cash Flows

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Net cash used in operating activities	(2,228.7)	(1,688.7)	(24,056.2)
Net cash used in investing activities	(3,287.4)	(6,631.9)	(13,297.1)
Net cash from financing activities	6,407.3	12,043.2	48,480.6
Net increase in cash and cash equivalents	891.2	3,722.6	11,127.3
Cash and cash equivalents at beginning of the year	2,093.2	2,972.9	6,701.6
Effect of foreign exchange rate changes	(11.5)	6.1	55.8
Cash and cash equivalents at end of the year	2,972.9	6,701.6	17,884.7

Key Financial and Operating Data

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

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions, except percentages)		
Financial Data:			
Operating profit ⁽¹⁾	1,010.5	2,797.6	9,062.8
Operating margin ⁽²⁾	22.0%	35.5%	44.3%
Adjusted operating margin ⁽³⁾⁽⁸⁾	32.0%	51.6%	59.9%
Profit for the year	982.3	2,358.7	7,374.2
Net margin ⁽⁴⁾	21.4%	29.9%	36.0%
Adjusted net margin ⁽⁵⁾⁽⁸⁾	31.1%	43.5%	48.8%
Return on average shareholders' equity ⁽⁶⁾	6.6%	13.8%	27.5%
Return on average total assets ⁽⁷⁾	1.8%	2.8%	4.7%
Operating Data:			
Average stock and fund brokerage commission rates of securities branches	7.7 bps	6.9 bps	5.4 bps
Balance of margin financing and securities lending business	2,801.4	9,777.0	13,571.0
Balance of collateralized stock repurchase and repurchase agreement transaction business	2,237.2	12,185.9	24,140.3
Lead underwriting amount of equity financing transactions	970.9	3,867.4	4,710.9
Lead underwriting amount of debt financing transactions	12,898.0	34,031.9	58,314.3
Average return of securities investment	14.4%	27.6%	44.5%

(1) Represents the difference between total revenue and other income and total expenses.

(2) Calculated by dividing operating profit by total revenue and other income.

(3) Calculated by dividing operating profit by the total revenue and other income net of commission and fee expenses and interest expenses.

(4) Calculated by dividing profit for the year by total revenue and other income.

(5) Calculated by dividing profit for the year by the total revenue and other income net of commission and fee expenses and interest expenses.

(6) Calculated by dividing profit attributable to the shareholders of the Company for the year by the average balance of the equity attributable to the shareholders of the Company at the beginning and the end of the period.

(7) Calculated by dividing profit for the year by the average balance of total assets at the beginning and the end of the period.

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

SUMMARY

The following table sets forth our segment revenue and other income (including inter-segment revenue), segment profit/(loss) before income tax, and segment margin for the periods indicated:

	Year ended December 31,								
	2013			2014			2015		
	Revenue and other income ⁽¹⁾	Segment profit/(loss) before income tax	Segment margin (%) ⁽¹⁾	Revenue and other income	Segment profit/(loss) before income tax	Segment margin (%) ⁽¹⁾	Revenue and other income	Segment profit/(loss) before income tax	Segment margin (%) ⁽¹⁾
(RMB in millions, except percentages)									
Wealth management	1,646.7	585.8	35.6	2,984.1	1,281.2	42.9	7,832.3	4,025.8	51.4
Investment management	202.1	139.9	69.2	319.0	133.6	41.9	1,764.9	1,149.5	65.1
Securities sales and trading	2,303.9	1,097.7	47.6	3,319.2	2,048.9	61.7	8,715.8	7,608.0	87.3
Investment banking	255.4	(18.8)	(7.4)	513.2	136.3	26.6	945.5	358.8	37.9
Headquarters and others	292.9	(556.0)	(189.8)	926.4	(577.1)	(62.3)	1,585.0	(3,367.9)	(212.5)
Inter-segment elimination . . .	(114.5)	(114.4)	—	(174.0)	(89.2)	—	(384.2)	(275.1)	—
Total	4,586.5	1,134.2	—	7,887.9	2,933.7	—	20,459.3	9,499.1	—

(1) Segment margin is calculated by dividing segment profit/(loss) before income tax by segment revenue and other income.

RISK MANAGEMENT, CAPITAL ADEQUACY AND LIQUIDITY

At the core of our risk management is the belief that “compliance creates value” and we foster a culture in which risk management is the responsibility of every employee. We strive to integrate risk management, compliance management and internal control functions. Our overall risk management system and internal control mechanism cover all businesses, departments, branches and employees and the entire processes, from decision-making, execution, supervision to seeking feedback. During the Track Record Period, we were not subject to any administrative penalties. We have received AA or A regulatory rating for six consecutive years (AA rating being the highest rating ever received by PRC securities firms) since 2010, when CSRC started publishing the classification evaluation results for securities firms. Please refer to “Regulatory Environment” for factors considered by CSRC for assigning regulatory ratings.

We have established a dynamic net capital monitoring mechanism to comply with statutory net capital requirements and other regulatory standards to maintain capital adequacy pursuant to the Risk Control Indicator Measures. We also need to maintain a minimum amount of net capital necessary to engage our securities brokerage, investment banking, securities sales and trading, investment management and margin financing and securities lending businesses. We closely monitor all risk control and liquidity indicators when conducting our business, particularly the investment and trading business as well as margin financing and securities lending businesses. During the Track Record Period, we were in compliance with regulatory requirements in terms of key net capital-based risk control indicators.

SUMMARY

The following table sets forth key regulatory risk control indicators and liquidity indicators of the Company that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:

	As of December 31,			Warning level ⁽¹⁾	Required level
	2013	2014	2015		
Net capital (RMB in millions) ⁽²⁾	11,188.2	11,731.0	25,758.9	240.0	>200.0
Net capital / total risk capital reserves (%) ⁽³⁾ . .	983.5%	618.0%	796.3%	120%	>100%
Net capital / net assets (%)	72.2%	65.1%	76.0%	48%	>40%
Net capital / total liabilities ⁽⁴⁾ (%)	35.0%	18.4%	21.5%	9.6%	>8%
Net assets / total liabilities ⁽⁴⁾ (%)	48.5%	28.3%	28.3%	24%	>20%
Value of equity securities and derivatives held / net capital ⁽⁵⁾ (%)	67.3%	76.2%	83.1% ⁽⁶⁾	80%	<100%
Value of fixed income securities held / net capital (%)	245.7%	315.9%	247.1%	400%	<500%
Liquidity coverage ratio ⁽⁷⁾	n/a	118.8%	140.3%	100% ⁽⁹⁾ / 120% ⁽¹¹⁾	≥80% ⁽¹⁰⁾ / ≥100% ⁽¹¹⁾
Net stable funding ratio ⁽⁸⁾	n/a	89.2%	166.4%	100% ⁽⁹⁾ / 120% ⁽¹¹⁾	≥80% ⁽¹⁰⁾ / ≥100% ⁽¹¹⁾

(1) Pursuant to the Risk Control Indicator Management Measures of Securities Companies, if the risk control index is required to stay above a certain level, the warning ratio is 120% of the stipulated minimum requirement, and if the risk control index is required to stay below a certain level, the warning ratio is 80% of the stipulated maximum requirement.

(2) Net capital is measured by subtracting from net assets the risk adjustments required to be made to a securities firm’s financial assets, other assets and contingent liabilities, and further adding or subtracting any other adjustments determined or authorized by CSRC.

(3) For an explanation of how total risk capital reserves are calculated, see “Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control.”

(4) For purposes of calculating the risk control index, total liabilities do not include accounts payable to brokerage clients.

(5) We have entered into the *Master Agreement on Transactions of OTC Derivatives in PRC Securities and Futures Market* and *Transaction Confirmation of Income Swaps* with China Securities Finance Corporation in July and September 2015, respectively, in accordance with which we allotted a total amount of RMB6.5 billion as investment fund to China Securities Finance Corporation. The investment will be under the unified operation of China Securities Finance Corporation through a specific account opened by it with the investment risks and profits shared by us on investment proportion. For the ratio of “value of equity securities and derivatives held / net capital” at the end of the period, we included such investment fund into the item of “value of equity securities and derivatives held” in this ratio at 100% of its ending balance with reference to stock treatment.

(6) Although the ratio of our value of equity securities and derivatives held / net capital as of December 31, 2015 exceeded the warning level, our operations and financial condition has not been restricted or affected.

(7) Calculated by dividing high quality liquid assets by total net cash outflows over the next 30 days. The calculation of liquidity coverage ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Firms (《證券公司流動性風險管理指引》) issued by SAC effective on March 1, 2014. The high quality liquid assets refers to assets which can be readily converted into cash at small or no loss of value in the financial market under a stress scenario. The total net cash outflows over the next 30 days equals total expected cash outflows minus the total expected cash inflows for the subsequent 30 days.

(8) Calculated by dividing available amount of stable funding by required amount of stable funding. The calculation of net stable funding ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Firms. The available amount of stable funding is defined as the equity and liabilities which provide stable sources of funds over a one-year period under a continued stress scenario. The required amount of stable funding is calculated as the sum of the value of assets or off-balance sheet exposures of a securities firm, multiplied by the respective factors.

(9) The applicable warning level before June 30, 2015.

(10) The applicable required level by December 31, 2014.

(11) The applicable warning level and required level since June 30, 2015.

RECENT DEVELOPMENTS

In the first quarter of 2016, the A share market experienced significant volatility. The CSI300 Index dropped 21.0% from December 31, 2015 to January 31, 2016, and then partially recovered in the subsequent two months. As of March 31, 2016, the CSI300 Index was down 13.8% compared to December 31, 2015. As a result, our revenue was materially and adversely affected as compared with the same period in 2015 when the market was in a more favorable condition, particularly in respect of our securities sales and trading segment. We are in the process of preparing our consolidated interim

SUMMARY

financial information for the three months ended March 31, 2016, which will be prepared in accordance with IFRS and be reviewed by our reporting accountants. We intend to include such financial information in the final document for the [REDACTED].

As a securities firm listed on the Shanghai Stock Exchange, we are required by the CSRC to announce unconsolidated unaudited monthly operating results including operating income, net profit and net assets of our Company and its two securities subsidiaries, Orient Securities Asset Management and Citi Orient, on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn/>). The selected monthly financial data included in these announcements were prepared by our management in conformity with the PRC GAAP on an unconsolidated basis and were not audited or reviewed by our reporting accountants. Accordingly, these selected unaudited unconsolidated financial data are not an indication of consolidated financial information of any period of a year or any full year. Further, IFRS and PRC GAAP may differ in certain significant respects. We strongly caution you not to place any reliance on such information when considering investing in our H Shares.

USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per H Share (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per H Share), we estimate that we will receive net [REDACTED] of approximately HK\$[REDACTED] million from the [REDACTED] after deducting the [REDACTED] and other estimated expenses, and assuming that the [REDACTED] is not exercised.

In line with our strategies, we intend to use our net [REDACTED] from the [REDACTED] for the purposes and in the amounts set out below:

<u>Intended use of net [REDACTED]</u>	<u>Percentage of the total estimated net [REDACTED]</u>	<u>Amount (in HK\$ million)</u>
Further expanding wealth management business	[REDACTED]	[REDACTED]
Expanding investment management business	[REDACTED]	[REDACTED]
Developing securities sales and trading business	[REDACTED]	[REDACTED]
Strengthening overseas business	[REDACTED]	[REDACTED]
Capital expenditure	[REDACTED]	[REDACTED]
Supplementing working capital and general corporate purposes	[REDACTED]	[REDACTED]

To the extent that the net [REDACTED] from the [REDACTED] are not immediately required for the above purposes, and to the extent permitted by applicable laws and regulations, we intend to apply our net [REDACTED] to short-term investment such as liquid assets classes. Please refer to “Future Plans and Use of [REDACTED]” for more details.

[REDACTED]

SUMMARY

[REDACTED]

RELATIONSHIP WITH SHENERGY GROUP

As of the Latest Practicable Date, Shenergy Group (our largest Shareholder) held approximately 30.08% of the issued Shares of our Company. Following the completion of the [REDACTED], Shenergy Group will hold approximately [REDACTED]% of the issued Shares of our Company (assuming the [REDACTED] is not exercised). Shenergy Group is not interested in any business, other than our Company, which competes or is likely to compete, either directly or indirectly, with our Company’s business pursuant to Rule 8.10 of the Listing Rules. Please see “Relationship with Shenergy Group” for more details.

DIVIDEND POLICY

Our Articles of Association require us to distribute cash dividends in any fiscal year in an amount equal to at least 30% of the distributable profits in the same year. We are required to explain to the shareholders if the cash dividends distributed for the year is less than 30% of the distributable profits during the same year. We will determine whether to declare or to pay any dividends in the future, and the amount of any dividends, based on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important.

For the years ended December 31, 2013 and 2014, we declared and paid cash dividends of RMB428.2 million and RMB792.3 million, respectively, representing a dividend of RMB0.10 and RMB0.15 per share, respectively. For the year ended December 31, 2015, we declared cash dividends of RMB2,376.8 million in total, representing a dividend of RMB0.45 per A Share, of which the interim dividend of RMB528.2 million had been paid in full, and the remaining RMB1,848.6 million has been approved by the Board and is subject to approval at a Shareholders’ meeting. Our historical dividends may not be indicative of future dividend payments.

Under PRC law, we may only pay dividends out of our distributable profits. Furthermore, as required by CSRC, as a securities firm, we are not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in our distributable profits. For further details, see “Financial Information—Dividend Policy.”

RISK FACTORS

Our operations and the [REDACTED] involve various risks, many of which are beyond our control. Those risks can be classified as: (i) risks relating to our business and industry; (ii) risks relating to China; and (iii) risks relating to the [REDACTED].

We believe that our main risk factors include:

- general economic and market conditions could adversely affect our business;
- our business may be adversely affected by regulatory changes and measures in China and other jurisdictions where we operate;

SUMMARY

- we may not be able to compete effectively in the PRC securities industry;
- our securities sales and trading business accounts for a sizeable portion of our overall business, and we may incur substantial losses from market volatility or sub-optimal investment strategies;
- our brokerage commission fee income may decrease; and
- poor investment performance of our asset management schemes and mutual funds may materially and adversely affect our asset management business.

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

REGULATORY MATTERS

We are subject to various regulatory requirements and guidelines promulgated by the regulatory bodies in the PRC and Hong Kong, including but not limited to the CSRC, SFC, Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange, NEEQ Company and their respective local authorities and offices, self-regulatory organizations in our industry, including but not limited to the SAC and the Asset Management Association of China. We or our employees may be involved in regulatory non-compliance incidents from time to time, and the regulatory non-compliance incidents can be divided into the following two categories based on the nature of the incidents: (i) non-compliance incidents that lead to administrative penalties; and (ii) non-compliance incidents that lead to regulatory measures and the deduction of regulatory points. Please see “Business—Laws and Regulations” for details.

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED], and other fees incurred in connection with the [REDACTED] and the [REDACTED]. [REDACTED] expenses to be borne by us are estimated to be approximately HK\$[REDACTED], of which approximately HK\$[REDACTED] is attributable to the [REDACTED] to the public and will be capitalized, and approximately HK\$[REDACTED] is expected to be reflected in our consolidated income statements. Our Directors do not expect such expenses to materially impact our results of operations for 2016.

DEFINITIONS

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

“A Share(s)”	domestic shares of our Company, with a nominal 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
	[REDACTED]
“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the [REDACTED] , a summary of which is set out in Appendix V to this document
“Board” or “Board of Directors”	the Board of Directors of our Company
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open to the public for normal banking business and which is not a Saturday, Sunday or public holiday in Hong Kong
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this document, Hong Kong, Macau and Taiwan

DEFINITIONS

“China Securities Finance Corporation”	China Securities Finance Corporation Limited (中國證券金融股份有限公司), a joint stock company established under the direction of the State Council to provide, among other functions, margin and securities intermediation service to support the margin financing and securities lending businesses of PRC securities firms
“China Universal”	China Universal Asset Management Limited Liability Company (匯添富基金管理股份有限公司), a joint stock company incorporated in the PRC with limited liability on February 3, 2005, and our Company had 39.96% of its equity interest as of the Latest Practicable Date
“Citi Orient”	Citi Orient Securities Co., Ltd. (東方花旗證券有限公司), a company incorporated in the PRC with limited liability on June 4, 2012, and a subsidiary in which our Company had 66.67% of equity interest as of the Latest Practicable Date
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company Law” or “PRC Company Law”	Company Law of the People’s Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on December 28, 2013 and became effective on March 1, 2014
“Company” or “our Company” or “Orient Securities”	a joint stock company incorporated in the PRC with limited liability under the corporate name “東方证券股份有限公司”, converted from our predecessor, Orient Securities Limited Liability Company (東方證券有限責任公司), on October 8, 2003, conducting business in Hong Kong as “東方證券” under Part 16 of the Companies Ordinance (in Chinese) and “DFZQ” (in English), and was registered as a non-Hong Kong company under the Chinese corporate name approved as “東方證券股份有限公司”, the A Shares of which have been listed on the Shanghai Stock Exchange since March 23, 2015 (Stock Code: 600958), and except where the context otherwise requires includes its predecessors

DEFINITIONS

“CSDC”	the China Securities Depository and Clearing Corporation (中國證券登記結算有限責任公司)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company
“EIT”	enterprise income tax of the PRC
“Exchange Participant(s)”	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
“GDP”	gross domestic product
	[REDACTED]
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries, and their respective predecessors
	[REDACTED]
“H Share(s)”	overseas listed foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be [REDACTED] on the Hong Kong Stock Exchange
“HK\$” or “HK dollars” or “Hong Kong dollar”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)

DEFINITIONS

[REDACTED]

“Hong Kong” or “HK”

the Hong Kong Special Administrative Region of the PRC

[REDACTED]

“Hong Kong Stock Exchange” or
“Stock Exchange”

The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

[REDACTED]

“IFRS”

International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards, and interpretation issued by the International Accounting Standards Committee

“Independent Third Party(ies)”

party(ies) not connected with us within the meaning of the Hong Kong Listing Rules to the knowledge of our Directors after all reasonable enquiries

[REDACTED]

DEFINITIONS

[REDACTED]

“Joint Sponsors”

Citigroup Global Markets Asia Limited, Goldman Sachs (Asia) L.L.C. and Nomura International (Hong Kong) Limited

“Latest Practicable Date”

April 1, 2016, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication

[REDACTED]

“Listing Committee”

the Listing Committee of the Hong Kong Stock Exchange

[REDACTED]

DEFINITIONS

“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mandatory Provisions”	the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (《到境外上市公司章程必備條款》), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on September 29, 1994
“Ministry of Finance” or “MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會)
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NSSF”	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
	[REDACTED]
“Orient Finance Hong Kong”	Orient Finance Holdings (Hong Kong) Limited (東方金融控股 (香港) 有限公司), a company incorporated in Hong Kong with limited liability on February 17, 2010, and a wholly-owned subsidiary of our Company

DEFINITIONS

“Orient Ruide Investment Management”	Orient Ruide (Shanghai) Investment Management Co., Ltd (東方睿德 (上海) 投資管理有限公司), a company incorporated in the PRC with limited liability on August 7, 2014, and a wholly-owned subsidiary of Orient Securities Capital Investment
“Orient Securities Asset Management”	Shanghai Orient Securities Asset Management Co., Ltd (上海東方證券資產管理有限公司), a company incorporated in the PRC with limited liability on June 8, 2010, and a wholly-owned subsidiary of our Company
“Orient Securities Capital Investment”	Shanghai Orient Securities Capital Investment Co., Ltd. (上海東方證券資本投資有限公司), a company incorporated in the PRC with limited liability on February 8, 2010, and a wholly-owned subsidiary of our Company
“Orient Securities Futures”	Shanghai Orient Securities Futures Co., Ltd (上海東證期貨有限公司), a company incorporated in the PRC with limited liability on December 8, 1995, and a wholly-owned subsidiary of our Company. On September 20, 2007, the Company acquired 100% of equity interest in the predecessor Shanghai Jiulian Futures Brokerage Co., Ltd. (上海久聯期貨經紀有限公司) of Orient Securities Futures via Shanghai united assets and equity exchange by agreement transfer. Henceforth, Orient Securities Futures became a wholly-owned subsidiary of our Company
“Orient Securities Innovation Investment”	Shanghai Orient Securities Innovation Investment Co., Ltd. (上海東方證券創新投資有限公司), a company incorporated in the PRC with limited liability on November 19, 2012, and a wholly-owned subsidiary of our Company
	[REDACTED]
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC GAAP”	generally accepted accounting principles in the PRC

[REDACTED]

DEFINITIONS

[REDACTED]

“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
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“QP”	a qualified purchaser as defined in Section 2(a)(51) of the U.S. Investment Company Act
“Regulation S”	Regulation S under the U.S. Securities Act
“Risk Control Indicator Measures”	Administrative Measures for the Risk Control Indicators of Securities Firms in the PRC (證券公司風險控制指標管理辦法)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAC”	the Securities Association of China (中國證券業協會)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	the State Administration of Taxation of the PRC (國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Securities Law”	the Securities Law of the People’s Republic of China (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Securities Times”	Securities Times Newspaper (證券時報) of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“Shanghai Securities News”	Shanghai Securities News of the PRC
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Shenergy Group”	Shenergy (Group) Company Limited (申能（集團）有限公司), a company incorporated in the PRC with limited liability on November 18, 1996, and the single largest Shareholder of our Company, owning approximately 30.08% of the Shares of our Company as of the Latest Practicable Date
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“SME(s)”	small and medium-sized enterprise(s)
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994
“SSE Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則), as amended
[REDACTED]	
“State Council”	State Council of the People’s Republic of China(中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Supervisor(s)”	member(s) of our Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Track Record Period”	the three years ended December 31, 2013, 2014 and 2015
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

DEFINITIONS

“U.S. Investment Company Act”	the United States Investment Company Act of 1940
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

[REDACTED]

“US\$” or “US dollars”	United States dollars, the lawful currency of the United States

[REDACTED]

“Wind Info”	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a company with limited liability incorporated in the PRC and a service provider of financial data, information and software, being an Independent Third Party of the Company

[REDACTED]

In this document, the terms “associate,” “close associate,” “connected person,” “core connected person,” “connected transaction,” “controlling shareholder” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this document have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

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

GLOSSARY OF TECHNICAL TERMS

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

“active client(s)”	client(s) holding non-dormant account(s)
“affluent client(s)”	our individual client(s) with account balance of equal to or over RMB0.5 million, but less than RMB5 million
“Alpha strategy”	an arbitrage trading strategy targeting return in excess of the compensation for systematic risk
“annual fund used by securities investments”	the beginning balance of net assets held for securities investment, as adjusted by time-weighted average of additional funds invested or withdrawn during the relevant period
“AUM”	assets under management
“average return of securities investment”	the ratio of net gains from securities investment activities to annual fund used by securities investment activities
“average stock and fund brokerage commission rate”	the commission and fee income on our securities brokerage business as divided by the corresponding brokerage trading volume for stocks and funds
“bps”	basis points
“CAGR”	compound annual growth rate
“CAM”	collective asset management
“ChiNext Board”	the growth enterprise board launched by the Shenzhen Stock Exchange
“collateral ratio”	for margin finance and securities lending business, it refers to the ratio of the fair value of the collateral, including cash and securities held by the clients, to the balance of the sum of the receivables and the securities lent out in the margin accounts of the clients; for collateralized stock repurchase business and repurchase agreement transaction business, it refers the ratio of the fair value of initial and supplement collateral, less any collateral already released, plus interests and dividends received, divided by the amount payable by the borrower
“collateralized stock repurchase”	a transaction in which eligible borrowers get financing from eligible lenders by pledging the stocks or other securities they hold and agree to return the borrowed funds and cancel the pledge some day in the future

GLOSSARY OF TECHNICAL TERMS

“CSI 300 Index”	a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange, which is compiled by the China Securities Index Co., Ltd. (中證指數有限公司)
“CSI 500 Index”	a capitalization-weighted stock market index compiled by the China Securities Index Co., Ltd. (中證指數有限公司) and designed to replicate the performance of 500 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange
“DFH”	Dong Fang Hong, a brand for our asset management products
“discretionary management products”	TAM schemes, where the specific investment objects are determined by the manager according to the investment scope and limitation agreed in the contracts signed with clients, CAM schemes, SAM schemes and mutual funds
“dormant account”	the A share account and related capital account of an investor whose securities account has nil balance, whose capital account has balance of no more than RMB100 and who has not conducted any trading in securities under his securities account in the last three consecutive years
“ETFs”	exchange-traded funds
“FICC”	fixed-income, currencies and commodities
“futures IB business”	the business activities in which securities firms, as commissioned by futures companies, introduce customers to futures companies to provide futures brokerage and other related services
“GFA”	gross floor area
“HNWI”	high net worth individuals
“high-net-worth client(s)”	our individual client(s) with account balance above RMB5.0 million
“income certificate”	marketable securities issued by securities firms with the payment of principal and return linked to specific underlying assets
	[REDACTED]
“large CAM scheme”	collective asset management scheme designed mainly for retail clients with minimum subscription amount ranging from RMB50,000 to RMB100,000 per client
“M&A”	mergers and acquisitions

GLOSSARY OF TECHNICAL TERMS

“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“NEEQ Company”	National Equities Exchange and Quotations Co., Ltd.
“net gains from securities investment activities”	the sum of net investment gains arising from securities investments and other comprehensive income (before income tax) of available-for-sale financial assets as securities investments (less impairment loss) (net of net interests expenses occurred for securities investments)
“non-discretionary management products”	TAM schemes where the investments are carried out in strict accordance with the specific investment instructions of the clients and the manager is exempt by contract of due diligence requirements
“O2O”	online to offline
“operating income”	operating income of a securities firm derived from financial statements prepared in accordance with the PRC GAAP
“OTC”	over-the-counter
“QDII”	Qualified Domestic Institutional Investor (合格境內機構投資者)
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“repurchase agreement transaction”	a transaction in which eligible clients sell underlying securities to the designated securities firms at an agreed price and agree to repurchase such securities from the securities firms at another agreed price on a future date
“RQFII”	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者), a program launched in the PRC which allows Hong Kong subsidiaries of PRC securities firms and funds to facilitate investments of offshore Renminbi into domestic securities market
“SAM”	specialized asset management
“Shanghai-Hong Kong Stock Connect”	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDC for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
“Shenzhen-Hong Kong Stock Connect”	a securities trading and clearing links program under development by the Shenzhen Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for the establishment of mutual market access between Hong Kong and Shenzhen, including Southbound Trading and Northbound Trading

GLOSSARY OF TECHNICAL TERMS

“small CAM scheme”	collective asset management scheme designed mainly for up to 200 institutional and high net worth clients with minimum subscription amount of RMB1 million per client
“SSE 50 Index”	a capitalization-weighted stock market index that selects 50 largest stocks of good liquidity and representatives traded on the Shanghai Stock Exchange
“ST stock(s)”	special treatment stock(s) of listed companies that experience unusual circumstances in their financial condition or operation, exposing them to delisting risks or making it impracticable for investors to evaluate the companies’ business prospects
“TAM”	targeted asset management
“Type-A branches”	branches that are equipped with IT system for on-site trading, which enables them to provide online trading service for clients, according to the Guidelines for Information Technology of Securities Branches of Securities Firms (證券公司證券營業部信息技術指引)
“Type-B branches”	branches that are not equipped with IT system for on-site trading, but rely upon the information system of the headquarters or other securities branches to provide on-site trading service for clients, according to the Guidelines for Information Technology of Securities Branches of Securities Firms (證券公司證券營業部信息技術指引)
“Type-C branches”	branches where on-site trading service is not available, according to the Guidelines for Information Technology of Securities Branches of Securities Firms (證券公司證券營業部信息技術指引)
“VaR”	value at risk

FORWARD-LOOKING STATEMENTS

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

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

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

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

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You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in China and most of our operations are conducted in China which is governed by a legal and regulatory environment that may differ from that of other countries. For more information concerning China and certain related matters discussed below, see “Regulatory Environment,” “Appendix IV—Summary of Principal Legal and Regulatory Provisions” and “Appendix V—Summary of Articles of Association.” You should seek professional advice from relevant advisors regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

General economic and market conditions could adversely affect our business.

Our business is highly dependent on economic and market conditions in China and other jurisdictions where we operate. General economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations on the financial and securities industries, upward and downward trends in the market, business and financial sectors, currency and interest rate fluctuations, availability of short-term and long-term market funding sources and cost of funding, could affect our business. As a securities firm, our business is directly affected by the inherent risks associated with the securities markets, including market volatility, changes in investment sentiment, fluctuations in trading volume, liquidity changes, and the creditworthiness or the perceived creditworthiness of the securities industry in the marketplace. As China capital markets are still evolving, market conditions may change rapidly. In addition, global financial market conditions may affect the financial market conditions in China. For example, the PRC financial market has recently experienced significant volatility. The SSE Composite Index initially rose from the second half of 2014 to early June 2015, reaching to a year high of 5,166.4 at the closing of June 12, 2015. During this period, the stock trading volume in the domestic A share market increased significantly. However, the A share market has experienced a sharp decline and significant volatility since mid-June 2015 with the SSE Composite Index dropping to its low end of 2,927.3 at the closing of August 26, 2015. In response, the PRC government has taken regulatory measures to stabilize the market, including, provision of more liquidity to the market, reducing the number and scale of IPOs and encouraging substantial shareholders, directors, supervisors and senior management of listed companies to increase shareholding in their companies and regulate the reduction of shareholding of shareholders in A share listed companies, all of which may have a material adverse effect on market liquidity and new offering channel to a certain extent.

In addition, downturns in general economic conditions and adverse market conditions could materially and adversely affect our business, results of operations, financial condition and prospects in various ways, including but not limited to the following:

- the demand of our clients for securities trading could decrease, resulting in a decline in our revenue from our securities brokerage;
- the value and returns on financial assets we hold for securities trading and investment and the value of investment portfolio for our asset management products may be adversely affected by market volatility;

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- we may face increased default risks that a client or counterparty may fail to perform its contractual obligations;
- our financing cost may increase due to the limited access to liquidity and the capital markets, and therefore restricting our ability to raise funding to develop our business; and
- we may not be able to effectively execute our business plans and strategies.

In addition, each segment of our business may be affected by the general economic and market conditions in different ways:

- *Securities brokerage business.* Our securities brokerage business depends on trading volumes. Unfavorable economic and market conditions, especially the performance of A share market, can adversely affect investor sentiment and trading and investment activities, resulting in reduced commission and fee income. According to the CSRC, compared with 2013, the combined daily average trading volume of A shares in the Shanghai Stock Exchange and Shenzhen Stock Exchange increased by 54.2% in 2014 and further increased by 245.0% in 2015. Such combined daily average trading volume achieved its record high during the first half in 2015. Correspondingly, our trading volume of stocks and funds on behalf of our clients increased from RMB1,393.5 billion in 2013 to RMB2,014.8 billion in 2014, and further increased to 6,511.4 billion in 2015, which directly resulted in the continuous increase of our commission on securities dealing, broking and handling fee income during the Track Record Period. The significant decline in A share market in June 2015 also resulted in a decrease of trading volume and impacted our commission on securities dealing, broking and handling fee income. In addition, the proportion of institutional investors in China’s securities market is relatively low compared with those in developed countries, contributing to higher volatility of securities trading volume, which materially and adversely affects the stability of revenue from our securities brokerage business.
- *Securities sales and trading business.* We have net long trading positions in various equity and fixed income securities as part of our securities sales and trading business. A substantial portion of these financial instruments, including financial assets at fair value through profit and loss and part of the available-for-sale financial assets, are marked to market. Their fair value is constantly affected by overall market conditions, and any decline in their fair value may have a direct and significant impact on our profit and capital position. In addition, a decline in the value of available-for-sale financial assets could result in the recognition of impairment losses if management determines that such decline in value is not temporary or is substantial, which could impact our profitability. In addition, we borrow funds to conduct security trading through repurchase transactions and significant changes in interest rates may also affect our profitability. We may not be able to hedge all of our exposures to such declines in an effective or cost-efficient way. Sudden declines and significant volatility in the asset prices may cause us to incur significant losses or significant unrealized losses.
- *Asset management business.* We receive asset management fee income based on the value of our clients’ portfolios or their assets under investment accounts that we manage. In addition, we also earn performance fees on certain asset management schemes. Market volatility and adverse economic conditions may affect the performance of the assets or

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funds we manage and reduce our AUM, which could adversely affect our ability to receive asset management fees or performance fees.

- *Our investment banking business.* Our investment banking business is largely dependent on market conditions. Unfavorable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the volume and number of fund raisings and M&A transactions. Adverse market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten and sponsored by us and M&A transactions advised by us, which could adversely affect the revenue and profitability of our investment banking business.

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

We are subject to extensive regulation in China and Hong Kong as a securities firm. These regulations limit the types of products and services we may offer by imposing capital requirements and restrict our business activities by stipulating the types of securities we may invest in. Relevant regulatory authorities conduct periodic inspections, examinations and inquiries in respect of our compliance with relevant regulatory requirements. For example, CSRC periodically evaluates and assigns a regulatory rating to each securities firm, including us, based on firm’s risk management capabilities, competitiveness and compliance with regulatory requirements. In addition, we may be subject to various regulations, inspections and restrictions imposed by relevant regulatory authorities in other countries and jurisdictions where we operate our business. Although we had certain non-compliance incidents that did not have any material and adverse impact on our business, financial condition and results of operations during the Track Record Period, our potential failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may limit our ability to conduct pilot programs and launch new businesses, and harm our reputation. Please refer to “Business—Regulatory non-compliances” for more details. We have received AA or A regulatory rating for six consecutive years (AA rating being the highest rating ever received by PRC securities firms) since 2010, when CSRC started publishing the classification evaluation results for securities firms. However, there is no assurance that we will be able to maintain such regulatory rating in the future. A downgrade of our regulatory ratings may limit our ability to conduct certain businesses or obtain certain business permits or approvals for our new businesses or cause us to be subject to a higher risk capital reserve ratio or a higher securities investor protection fund reserve ratio. Any future incidents of non-compliance may have a material adverse effect on our business, financial condition, results of operations, reputation and prospects.

Rules and regulations applicable to our business are evolving rapidly. New rules and regulations, and changes in the interpretation or enforcement of existing rules and regulations may directly impact our business strategies, competitiveness and prospects. Changes in the rules and regulations could impose more stringent requirements or additional limitations on the business that we conduct, require us to modify our existing business practices and lead to additional compliance costs or introduce and increase competition for our business. In April 2015, CSDC switched from a “one-person-one-account” system to a “one-person-multiple-account” system and each individual investor was allowed to open up to 20 securities accounts. After the transition, our clients may compare commission rates and service level among different securities firms and thus to easily switch accounts, which will lead to higher pressure on our revenue and service level. The trend of reducing barriers to

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the entry of the PRC securities industry may also intensify the competition we face. New competitors, including foreign competitors, may be allowed to enter into the securities industry, and our current competitors may be allowed to expand the scope of their business into new business lines. For example, according to a statement made by CSRC on March 6, 2015, CSRC is evaluating a proposal to open up the PRC securities industry to other financial institutions such as commercial banks, which if adopted, is expected to intensify market competition, particularly in securities brokerage, underwriting and asset management business, as commercial banks generally have greater financial resources, including the use of balance sheet to cross-sell other products and services, wider branch network and a larger client base compared to securities firms. Our failure to adapt to the changing regulatory environment and maintain our compliance and competitiveness could have a material adverse effect on our business, financial condition, results of operations and prospects.

Restrictions on foreign equity participation in China capital markets and the securities market have been removed gradually in recent years. In October 2012, CSRC amended the Regulations on the Establishment of Securities Firms with Foreign Equity Participation, increasing the proportion of accumulated shareholdings of overseas shareholders or the interests they hold in the securities firm with foreign equity participation from not exceeding one-third to not exceeding 49%. In August 2013, the Chinese government signed “Supplement X to ‘The Mainland and Hong Kong Closer Economic Partnership Arrangement’ “《<內地與香港關於建立更緊密經貿關係的安排>補充協議十》” with the government of the Hong Kong Special Administrative Region and “Supplement X to ‘The Mainland and Macao Closer Economic Partnership Arrangement’ “《<內地與澳門關於建立更緊密經貿關係的安排>補充協議十》” with the government of the Macao Special Administrative Region to further soften the conditions of Hong Kong capital and Macau capital flowing into capital markets of the PRC. Under this framework, the proportion of shareholdings of Hong Kong capital and Macau capital in a securities joint venture set up in Shanghai, Guangdong Province and Shenzhen could amount to up to 51%. Under this new framework, qualified foreign-invested securities firms may obtain full securities business licenses to extend business beyond the previously permitted underwriting and sponsoring of equity and debt, foreign stock brokerage, bond brokerage and proprietary trading. The influx of foreign capital will further increase competition in the market, and may have an adverse impact on our business, financial conditions, operating results and prospects.

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

We are subject to capital adequacy, risk indicator, liquidity and other requirements imposed by CSRC, SAC, and other regulatory authorities and self-regulatory organizations. According to CSRC’s requirements, the ratio between our net capital and net assets may not fall below 40.0%, the ratio between our net capital and liabilities may not fall below 8.0% and the ratio between our net capital and the total risk capital reserve may not fall below 100% and the ratio between our net assets and liabilities may not fall below 20.0%. Pursuant to CSRC’s Administrative Measures for Risk Control Indicators of Securities Firms, or the Risk Control Indicator Measures, we have established a dynamic net capital monitoring mechanism to comply with statutory regulatory standards on risk control indicators with net capital as the core. In addition, we are required to comply with certain risk indicator requirements to engage in different businesses. For securities firms whose ratio of net capital to total risk capital reserve is less than 200% or liquidity regulatory indicator is less than 120% (less than 100% before June 30, 2015), their gearing ratio (total asset to net asset) may not exceed 5 times and their application of innovative business pilot program shall be suspended. We are also subject to

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various liquidity requirements. According to SAC, both the Liquidity Coverage Ratio (ratio of good-quality liquid assets to estimated net cash outflow for the next 30 days) and the Net Stable Funding Ratio (ratio of available stable funding to stable funding required by business) shall reach 100% by June 30, 2015. During the Track Record Period, we were in compliance with regulatory requirements using major risk control indicators with a focus on net capital. These requirements may restrict the scope and scale of our business activities, and may require us to adjust our existing business in order to become eligible for new and innovative products and services. Our failure to meet such requirements could lead to sanctions, fines, penalties or other disciplinary actions, including a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may have a material adverse effect on our business, financial condition, results of operations, reputation and prospects.

We may not be able to compete effectively in the PRC securities industry.

The PRC securities industry is highly competitive. As of December 31, 2015, there were 125 registered securities firms in China. We also face intense competition from other financial institutions, such as commercial banks, fund management companies, insurance companies, trust companies, futures companies and asset management companies.

- *Brokerage business.* For our brokerage business, we compete primarily with other securities firms in China in terms of pricing and differentiation of products and services offered. We monitor the relevant product pricing, commission rates and fee structures of competitors and implement adjustment strategy promptly and strive to improve our service level, providing clients with differentiated value-added service to maintain our competitiveness. Partially due to launch of online brokerage services, the brokerage commission rates in the China securities market have been decreasing in recent years. If an increasing number of discount brokers and Internet companies seek to enter and expand the online brokerage business, the brokerage commission rate in the industry may further decrease.
- *Investment banking business.* For our investment banking business, we compete primarily with other PRC securities firms as well as 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 our investment banking business.
- *Asset management business.* For our asset management business, we compete primarily with other securities firms, fund management companies, commercial banks, insurance companies and other financial institutions in China in terms of the range of products and services offered, pricing, investment capability and quality of client service.

Some of our competitors may have certain competitive advantages over us, including greater financial resources, stronger brand recognition, broader product and service offerings and wider branch network coverage. Failure by us to effectively compete may have an adverse effect on our business, financial condition, results of operations and prospects.

Our securities sales and trading business accounts for sizeable portion of our overall business, and we may incur substantial losses from market volatility or sub-optimal investment strategies.

In 2013, 2014 and 2015, revenue from our securities sales and trading business amounted to RMB2,303.9 million, RMB3,318.1 million and RMB8,713.9 million, respectively, representing 50.8%,

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42.5% and 43.0% of our total revenue, respectively. We primarily trade equity and fixed-income securities for our own account using our balance sheet. The performance of our securities sales and trading business depends on market conditions and our investment decisions and judgments. We closely monitor the market value and financial performance of our investment and trading portfolio, and actively adjust such portfolio to allocate assets based on market conditions and internal risk management guidelines. However, our investment decisions are based on human judgments, which involve management discretion and assumptions. If our decision-making process fails to effectively control losses or capture investment gains, or our forecasts do not conform to sudden changes in market conditions, or if we do not effectively manage our exposure to concentration risks from particular assets or asset classes, our securities sales and trading business may not achieve the investment returns we anticipate, and we could suffer material losses, any of which would materially and adversely affect our business, financial condition and results of operations.

We have made contributions for investment in China blue chips ETF and have committed not to reduce the position of our stocks held for investment under certain conditions.

The A share market has been volatile since the second quarter of 2015 and the PRC government has introduced measures and led initiatives by market participants to stabilize the market. We and 20 other leading PRC securities firms jointly announced on July 4, 2015 that (i) each of these securities firms will contribute to China Securities Finance Corporation an amount of no less than 15% of such company’s net assets as of June 30, 2015 for its investment in China blue chips ETF; and (ii) unless the Shanghai Stock Exchange Composite Index reaches 4,500 or above, each of these securities firms will not reduce its net equity position in its trading portfolio to the level below its position as of July 3, 2015 and shall increase its net equity position as appropriate. On September 1, 2015, we further increased our total contribution to China Securities Finance Corporation to an amount no more than 20% of our net assets as of July 31, 2015. As of December 31, 2015, we had contributed RMB6.5 billion to China Securities Finance Corporation. We have recorded our contributions as available-for-sale financial assets. At present, it is not within our control how China Securities Finance Corporation will make use of the funds for investment and when our contributions will be returned. We may incur losses from these contributions, which would materially and adversely affect our results of operations and financial condition. In the future, we may be required to, or decide to, make further and similar contributions and as a result, may incur losses from such contributions.

Our brokerage commission and fee income may decrease.

Brokerage commission and fee income represent a significant portion of our revenue. In 2013, 2014 and 2015, revenue from our securities brokerage business represented 25.9%, 20.2%, and 20.8% of our total revenue, respectively. Meanwhile, in 2013, 2014 and 2015, revenue from our futures brokerage business represented 4.7%, 3.6% and 2.0% of our total revenue, respectively.

Our brokerage business depends on trading volume, which is significantly affected by external factors, such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates, all of which are beyond our control. Trading volume is also affected by the size of our client base and the frequency that they trade through us. As of December 31, 2015, we had 899,300 brokerage clients, including 3,700 institutional and corporate clients. In addition, we had 27,100 futures brokerage clients. If we fail to maintain and increase our client base, or fail to increase their trading activities through us, our brokerage fee and commission income may be adversely affected.

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Revenue from our brokerage business also depends on our brokerage commission rate, which is primarily driven by competition. With our average brokerage commission rates steadily decreasing, our average stock and fund brokerage commission rates of securities branches were 7.7 bps, 6.9 bps and 5.4 bps, and our average futures brokerage commission rates were 0.11 bps, 0.06 bps and 0.04 bps in 2013, 2014 and 2015, respectively. There is constant pressure to further lower the brokerage and commission rate in the securities industry, especially for the standardized brokerage business that may be offered online. In April 2015, CSDC switched from a “one-person-one-account” system to a “one-person-multiple-account” system, allowing each individual investor to open up to 20 securities accounts. After the transition, our clients may compare the fees and commission rates among different securities firms and switch accounts more easily. As a result, we may face increased downward pressure on our brokerage commission and fee income and will need to provide better services and products to retain and attract clients.

Any negative development in the securities market that affects the trading volume or commission rate could lead to a decrease of our revenue from brokerage business, and in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

We may fail to realize profits from our private equity investments and may lose some or all of the capital invested.

We engage in private equity investment business with our own capital through our wholly-owned subsidiary, Orient Securities Capital Investment, and make direct equity investments through several funds set up by this subsidiary. We aim to earn investment returns from dividends and interests paid by our portfolio companies and generate capital gains through IPOs or disposal of equities in our portfolio companies. To make a sound investment decision, we need to carefully identify and select a target company based on its business, operations and industry. In general, this selection process involves a systematic forecast of the portfolio companies’ growth, profitability and sustainability. However, we may make unsound investment decisions due to our failure to identify fraudulent or inaccurate or misleading statements from the portfolio companies in the course of our due diligence, or we may inaccurately project the portfolio companies’ or the relevant industry’s growth prospects and profitability, which could lead us to overvalue the portfolio companies and prevent us from making a profit on such investments or even incur substantial losses on such investments.

The ability of our private equity funds established via the subsidiary of Orient Securities Capital Investment to dispose of investments is dependent on the stock market, the regulatory environment and our ability to identify potential buyers. At the time of our disposal, if we experience stock market volatility or face undesirable regulatory environment for public offerings, our private equity funds may sometimes be forced to sell stakes in the investee companies at undesirable prices or defer the sale, potentially for a substantial length of time, exposing our investment returns to market risks during the intended disposal period. In addition, failure of the portfolio companies to meet expectations on profitability could also affect our ability to exit our investments at the desired rate of return or at all. We also make private equity investment in companies that aim to be listed on NEEQ. Currently, the market size and liquidity of NEEQ is still limited, and stagnation in the development of NEEQ market may adversely affect our private equity investments in such companies. We expect to continue to make capital investments in our current and future private equity funds if we continue to meet the relevant net capital and risk indicators requirements. Contributing capital to these funds is risky, and we may lose some or the entire principal amount of our investments.

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In addition, we have limited control over some of the portfolio companies in which we have invested. We are subject to the risk that our portfolio companies may make business, financial or management decisions that the majority stakeholders or the management of the company may take, otherwise act in a manner, that does not serve our interests. Furthermore, our portfolio companies may fail to abide by their agreements with us, for which we may have limited or no recourse. If any of the foregoing were to occur, the value of our investments could decrease and thus our financial condition, results of operations and cash flow could be materially and adversely affected.

We may not be able to expand our client base and branch network.

The securities brokerage business is highly competitive and we need to maintain our client base and attract new clients from our competitors in order to maintain or grow our market share. Similar to other securities firms, we serve clients of our securities brokerage business and manage client relationships primarily through our securities branches. As of December 31, 2015, we had 120 securities branches serving 899,300 clients, including 3,700 institutional and corporate clients. The securities branches we have recently established are primarily Type-B and Type-C branches, which have low requirements on size, opening fees and on-site employees, among which, Type-C branches do not provide on-site trading service and do not require machinery facilities, facilitating our rapid establishment of operation branches at low cost. However, we cannot guarantee we will succeed in further expanding our branch network due to changes in regulatory policies, difficulties in managing a large number of retail brokerage staff and other unforeseeable reasons. In addition, as a result of intense competition, we may face increased pressures on declining fee and commission rates, and will need to provide better and customized services and products to differentiate ourselves and to retain and attract clients. If we are unable to expand our branch network and address the needs of our clients by offering competitive rates, maintaining high quality client service, continuing product innovation and providing value added services, or if we otherwise fail to meet our clients’ demands or expectations, we may lose our existing clients to our competitors or fail to attract new clients, which may in turn have a material and adverse effect on our business, financial condition, results of operations and prospects.

We may suffer significant losses from our credit exposure.

The amount and duration of our credit exposure has been increasing over the past several years in tandem with our business growth and the increasing number of counterparties to which we have credit exposure. We have net long trading positions in various fixed income securities as part of our investment, and face credit risks that the issuers of the relevant securities may default. We also face credit risks in our role as counterparty in derivative contracts. In addition, we conduct OTC trades with our clients as a counterparty to provide them with customized products or services, such as interest rate swaps, OTC options and equity return swaps. Because there is no exchange or clearing agent for these contracts, we may be subject to the credit risk of non-performance of the counterparty. Any material non-payment or non-performance by a client or counterparty could adversely affect our financial position, results of operations and cash flows. For example, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. Although we regularly review our credit exposure to specific clients or counterparties and to specific industries that we believe may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to attain all relevant information with respect to the credit risks of our clients and counterparties.

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Our securities financing businesses, including margin financing and securities lending, collateralized stock repurchase, and repurchase agreements transactions, as well as our futures brokerage business, are subject to the risk that a client may fail to perform its payment obligations or that the value of collaterals held by us to secure the obligations might become inadequate. In our securities financing businesses, we may enforce liquidation of collateral if our clients are unable to meet their obligations as scheduled, or whose collateral ratios are lower than our minimum threshold due to fluctuations in market prices of the collateral while failing to replenish the value of collateral. In our futures brokerage business, we require our clients to maintain a certain amount of account balance for their futures trading. We conduct automatic valuations for clients’ account balances on each trading day, and, in the event of an insufficient account balance, we require clients to replenish their account balance or may enforce to liquidate their positions. Such mandatory liquidation mechanism may trigger disputes between clients and us and may subject us to significant legal expenses or litigation risks. In addition, the ability to carry out forced liquidation of client positions is adversely affected by market volatility. If the market price of securities which we hold as collateral decreases sharply for an extended period, the value of the collateral may fall below the value of our margin loans when we are unable to liquidate clients’ positions in a timely manner due to the daily price fluctuation limit on the A share market and relevant A share stock suspensions, resulting in significant losses. On July 1, 2015, the CSRC abolished the collateral ratio and mandatory liquidation requirements for margin financing and securities lending business. Such regulatory change may require more stringent internal risk management measures and may further increase our credit risk exposures. Our risk profile evaluation of our securities financing clients may be subject to discretionary judgment on a case-by-case basis. In the event that we fail to effectively manage our credit exposure through our risk management policies and procedures, we may experience financial losses that could materially and adversely affect our business, financial condition and results of operations.

Our derivative transactions are subject to various risks and may expose us to unexpected risks and potential losses.

We engage in various derivatives transactions in the market to hedge the interest rate exposure that arises from our asset and liability positions and reduce the impact of price volatility of our investment portfolio. However, as the derivatives market in China is still in its early stage of development, our ability to hedge the market risks associated with our businesses is constrained by the limited availability of derivative products and changes of regulatory environment. Therefore, we may not be able to successfully use available derivative instruments to reduce our exposure to fluctuations in interest rates, foreign exchange rates, equity market performance and the prices of our investment products.

Derivative transactions are part of our trading and investment activities. Derivative contracts we enter into expose us to unexpected market, credit and operational risks and could cause us to suffer unexpected losses. While a transaction remains unfinished or experiences any delay in settlement, we are subject to heightened credit and operational risks. In the event of default, we may find it more difficult to enforce the contract. In addition, as China’s derivative market is still in its early stage of development, the secondary market for derivatives is volatile and may have limited liquidity. We may also be inexperienced in dealing with new products or making appropriate judgments in trading derivative products. Currently, substantially all of our derivative transactions are hedged by counter directional derivatives, or designed to hedge our other equity or fixed income investments, and are not for speculative investment. However, we may in the future gradually engage in speculative derivative

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transactions for our investment trading account. We may not fully understand, and may not be able to fully control, any risks relating to derivative transactions. Any unexpected loss from derivative transactions could have a material adverse effect on our business, financial condition and results of operations.

Our investment banking business is affected by regulations and policies affecting securities market transactions.

In 2013, 2014 and 2015, revenue from our investment banking business represented 5.7%, 6.6% and 4.5% of our total revenue, respectively.

Transactions we are involved in are subject to uncertainties in regulatory approvals. The primary offering of securities in China, especially IPOs, and certain types of M&A transactions 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 our control and may cause substantial delays to, or the termination of, securities offerings underwritten by us or M&A transactions advised on by us. For example, from October 2012 to January 2014, the CSRC halted its approval of all A share IPO applications in China and, as a result, we did not complete any IPO underwriting and sponsorship transactions in 2013. We may experience delays in, or terminations of, securities offerings underwritten and sponsored by us as a result of unfavorable market conditions such as the market volatility which resulted in a short halt of approval of A share IPO by the CSRC in the second half of 2015. A significant decline in the approval rate of the securities offerings underwritten or sponsored by us or M&A transactions advised by us could harm our reputation, erode client confidence and reduce our underwriting, sponsors and advisory fee income, because we receive most of our fees only after the successful completion of a securities offering or M&A transaction.

In addition, when acting as a sponsor in securities offerings or a financial advisor for M&A transactions, we 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, parties of M&A transactions or us, misstatements and omissions in disclosure documents, or other illegal or improper activities that occur during the course of the underwriting or providing of financial advisory service.

Furthermore, the PRC regulatory requirements towards investment banking businesses continue to change, including the implementation of a compensation regime in which sponsor institutions are required to commit to compensate investors for their losses resulting from untruthful disclosures in IPOs before issuers' compensation liability is determined. In addition, PRC securities firms are facing increasing challenges in terms of deal execution, client development, pricing and distribution capabilities. If we are unable to adjust our business practices and strategies to meet these new challenges, we may not be able to compete effectively in the securities industry, which could in turn materially adversely affect income from our investment banking business.

Poor investment performance of our asset management schemes and mutual funds may materially and adversely affect our asset management business.

In 2013, 2014 and 2015, revenue from our investment management business, excluding fund management business of China Universal, amounted to RMB202.1 million, RMB319.0 million and

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RMB1,755.8 million, representing 4.5%, 4.1% and 8.7% of our total revenue, respectively. As of December 31, 2015, total AUM by our asset management schemes and our mutual funds amounted to approximately RMB107.9 billion, of which, discretionary management funds amounted to RMB96.7 billion, or 89.7%. China Universal, our associate, also conducts fund management with AUM of RMB467.3 billion, including AUM of mutual funds of RMB252.5 billion. We receive asset management fees based on the size of each asset management scheme under our management. In addition, we may earn performance fees for certain asset management schemes. Investment performance affects our AUM and is one of the most important factors in maintaining our existing clients and attracting new clients, maintaining our fund ratings for new funds or asset management schemes, and competing for new asset management businesses. If our funds do not perform satisfactorily to our clients or we fail to outperform our competitors, existing clients might withdraw funds from our asset management business, which will lower our asset management fee income. Any of these could adversely affect the amount of asset management fees or performance fees received by us, and in turn have a material and adverse effect on our business, financial condition, results of operations and prospects. Furthermore, we use our own capital to subscribe for certain of our asset management products, the poor investment performance of which may adversely affect our investment management segment revenue. In addition, there are senior and subordinated tranches in our asset management products. We use our own capital to subscribe for certain subordinated tranche of the asset management schemes. Under the agreements between us and our clients for these schemes, we must compensate our clients the difference between the actual investment return of the schemes and the expected return we pre-agreed with them, which is capped at our total investment amount in the scheme. Therefore, we may suffer losses in the fund invested in those schemes, partly or entirely, which may in turn adversely affect our performance. As of December 31, 2015, the total amount we invested in subordinated tranches was RMB413.0 million.

We may be subject to liability and reputational damage for distribution of financial products issued by financial institutions.

We distribute, through our branch network and online platform, financial products issued by financial institutions. The structure of some financial products, such as trust schemes, may be complex and involve various risks, including credit risks, interest risks, liquidity risks and other risks. Although as a third-party distributor, we are not liable for any investment loss or default directly derived from the financial products we distributed to our clients, we may be subject to client complaints, litigation and regulatory investigation which could have an adverse effect on our reputation and business. For example, we may not be able to identify and quantify the risks of these financial products, and our sales employees may fail to disclose such risks to our clients, in which case, our clients 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 us to client complaints and litigation risks. As a result, our reputation, clients relationships, business and prospects would be materially and adversely affected.

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

Our exposure to interest rate risk is primarily associated with our interest income, interest expenses and fixed income investments. We earn interest income from wealth management, including margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions, bank balances, including cash balance held on behalf of brokerage clients as well as our own cash balance, and other business. We also make interest payments on accounts payable to

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brokerage clients, financial assets sold under repurchase agreements and various debt financing, including borrowings, due to banks and other financial institutions, short-term financing bills, income certificates, corporate bonds and subordinated bonds. In addition, we hold net fixed income securities positions, whose market prices are directly affected by the prevailing interest rates. Significant interest rate fluctuations could reduce our interest income or returns on fixed income investments, or increase our interest expenses, any of which could materially and adversely affect our business, financial condition and results of operations.

We have had, and may continue to have, negative net cash flow from operating activities.

For 2013, 2014 and 2015, we recorded RMB2,228.7 million, RMB1,688.7 million and RMB24,056.2 million negative net cash flow from operating activities, respectively. For details of our negative net cash flow from operating activities during the Track Record Period, see the section headed “Financial Information—Liquidity and Funding Resources—Overview—Operating Activities.” We cannot assure you that we will not have negative net cash flow from operating activities in the future. If we have significant negative net cash flow from operating activities, our working capital may be subject to constraints, which might materially and adversely affect our business, financial condition and results of operations.

The level of our indebtedness and potential unavailability of credit may materially adversely affect our business.

We rely on bank and other external borrowings and bond issuances to fund a significant portion of our working capital requirements. Our financial condition, liquidity and business operations will be adversely affected to the extent we are not able to service or repay our debt in a timely manner because of the lack or unavailability of internal resources or inability to obtain alternative financing. Even if we are able to meet our debt service obligations, the amount of debt we borrow could also adversely affect us in a number of ways, including by:

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

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

Maintaining adequate liquidity is crucial to our business operations as we continue to expand our collateralized stock repurchase, investment management, and other business activities with

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substantial cash requirements. We meet our liquidity needs primarily through cash generated from operating activities and debt financing. A reduction in our liquidity could reduce the confidence of our clients or counterparties in us, which may result in the loss of business and client accounts. In addition, we will need to satisfy various liquidity requirements in order to maintain or expand our scope of business, especially innovative products and services. Failure in the future to comply with the mandatory liquidity requirements, or any heightened requirements for specific business, may result in self-regulatory measures imposed by SAC. Any of these could have a material adverse effect on our business development and reputation.

Factors that may adversely affect our liquidity position include increased regulatory capital requirements, substantial investments, loss of market or client confidence or other regulatory changes. These situations may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our counterparties or us, or the perception among market participants that we, or other market participants, are experiencing liquidity risk. Furthermore, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity crunch or other market crisis. When cash generated from our operating activities is not sufficient to meet our liquidity or regulatory capital needs, we must seek external financing. During periods of disruption in the credit and capital markets, potential sources of external financing could be limited and our borrowing costs could increase. Such financing may not be available on acceptable terms or even not at all due to unfavorable market conditions and disruptions in the credit and capital markets.

A failure to identify and address conflicts of interest appropriately could adversely affect our business.

As we expand the scope of our business and our client base, it is critical for us to be able to address potential conflicts of interest, including situations where two or more interests within our business naturally exist but are in competition or conflict. We have extensive internal control and risk management procedures that are designed to identify and address conflicts of interest. However, appropriately identifying and dealing with potential conflicts of interest is complex and difficult. Conflicts of interest may exist between (i) our departments; (ii) us and our clients; (iii) our clients; (iv) us and our employees; or (v) our clients and our employees. Our failure to manage conflicts of interest could harm our reputation and erode client confidence in us. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

We face additional risks as we expand our product and service offerings.

We are committed to providing new products and services in order to strengthen our leading market position in China securities industry. We expanded our business to include margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions as well as OTC trading in recent years. We plan to further expand our product and service offerings, including online securities services. We will continue to expand our product and service offerings as permitted by relevant regulatory authorities, transact with new clients not in our traditional client base and enter into new markets, meanwhile, it's expected our overseas business will be further expanded. These activities expose us to new and increasingly challenging risks, including, but not limited to:

- we may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and clients;

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- we may be subject to stricter regulatory scrutiny, or increased tolerance of credit risks, market risks, compliance risks and operational risks;
- we may suffer from reputational concerns arising from dealing with less sophisticated counterparties and clients;
- we may be unable to provide clients with adequate levels of service for our new products and services;
- we may be unable to hire additional qualified personnel to support the offering of a broader range of products and services;
- our new products and services may not be accepted by our clients or meet our profitability expectations;
- our new products and services may be quickly copied by our competitors so that its attractiveness to our clients may be diluted;
- we may be unable to obtain sufficient financing from internal and external sources to support our business expansion;
- we may not be successful in enhancing our risk management capabilities and IT systems to identify and mitigate the risks associated with these new products and services, new clients and new markets;
- we may have difficulties in managing overseas operations, including the compliance with various regulatory and legal provisions in different jurisdictions;
- various approval or licensing provisions;
- challenges in providing products, services and supports in overseas markets;
- challenges in managing distribution channels and overseas distribution network effectively;
- the accounting treatment differences between various jurisdictions;
- potential adverse effects of taxation;
- exchange losses; and
- local political and economic instability or civil strife.

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

We may pursue joint ventures or acquisitions that could present unforeseen integration difficulties or costs and may not enhance our business as we expect.

We have in the past pursued joint ventures and other acquisition transactions aimed at entering new business lines, developing our expertise in specific areas, and expanding the geographic scope and scale of our operations. Acquisitions and joint ventures involve a number of risks and present financial, managerial and operational challenges, including potential disruption of our 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

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diversity and complexity of our operations. We may not be able to realize any anticipated benefits or achieve the synergies we expect from these acquisitions or joint ventures. Our clients may react unfavorably to our acquisition and joint venture strategy, and we may incur additional liabilities due to acquisitions and set-up of joint ventures. We may also be unable to enforce contractual and legal rights effectively for the limited intellectual property right protection by the laws, or any changes in the laws, regulations and policies of local governments that could adversely affect our business, financial condition, results of operations and prospects.

Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not fully protect us against various risks inherent in our business.

Currently, we follow our comprehensive internal risk management framework and procedures to manage our risk exposures, primarily including market risk, credit risk, liquidity risk, compliance risk and operational risk. Our risk management policies, procedures and internal controls may not be adequate or effective in mitigating our risk exposures or protecting us against unidentified or unanticipated risks. In particular, some methods of managing risks are based upon observed historical market behavior and our experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by our historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up to date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience that we rely on for our risk management methods may become quickly outdated as markets and regulations continue to evolve. Deficiencies in our risk management and internal control systems and procedures may adversely affect our ability to identify or report our deficiencies or non-compliance. Any of these may have a material adverse effect on our business, financial condition and results of operations.

Our operations depend on key management and professional staff and our business may suffer if we are unable to retain or replace them.

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

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

We may be exposed to fraud or other misconduct committed by our and China Universal’s employees, representatives, agents, clients or other third parties that could subject us to financial losses and sanctions imposed by governmental or self-regulatory authorities, as well as adversely affect our reputation. Please refer to “Business—Regulatory non-compliances” for more details. Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all, particularly with respect to our innovative products or services, which may be more complex and new to us. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective. There can be no assurance that fraud or other misconduct will not occur in the future and there can be no assurance that we will detect and prevent such fraud or misconduct. If such fraud or other misconduct does occur, it may cause negative publicity. Our failure to detect and prevent fraud and other misconduct may have a material adverse effect on our business, reputation, financial condition and results of operations.

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

We are required to comply with applicable anti-money laundering and anti-terrorism laws and regulations in China and Hong Kong. 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 us to, among other things, establish or designate an independent anti-money laundering department, establish a client identification system in accordance with relevant rules, record the details of client activities and report suspicious transactions to relevant authorities. We have adopted policies and procedures aimed at detecting and preventing the use of our business platforms to facilitate money laundering activities and terrorist acts. Such policies and procedures may not completely eliminate instances in which we may be used by other parties to engage in money laundering and other illegal or improper activities. In the event that we fail to fully comply with applicable laws and regulations, the relevant government agencies may freeze our assets or impose fines or other penalties on us. There can be no assurance that there will not be failures in detecting money laundering or other illegal or improper activities which may adversely affect our business, financial condition, results of operations and reputation.

We are subject to the risks arising from any failures or inadequacies of our IT systems.

Our operations rely heavily on the ability of our 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. Our system for processing securities transactions is highly automated. A prolonged disruption to, or failure of, our information processing or communications systems would limit our ability to process transactions. This would impair our ability to service our clients and execute trades on behalf of clients and for our own account, which could materially and adversely affect our competitiveness, financial condition and results of operations.

The proper functioning of our core IT systems, online trading 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 our headquarters and

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branches, are critical to our business and our ability to compete effectively. We have established multi-tier back-up systems to carry on principal functions or restore our systems in the event of a catastrophe or failure of our systems, including those caused by human errors. However, there can be no assurance that our operations will not be materially disrupted if any of our systems fail. In addition, if the capacity of our trading system is unable to process all trading orders when the securities market experiences high volatility, we may be subject to client complaints, litigation or adverse effects on our reputation.

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

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

We face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any operational failure or termination of the particular financial intermediaries that we use could adversely affect our ability to execute transactions, service our clients and manage our exposure to risk. In addition, as our inter connectivity with our clients grows, we will increasingly face the risk of operational failure with respect to our clients’ systems such as personal computers, mobile devices and tablets, as well as connectivity to and compatibility with our clients’ systems. Any operational failure may lead to loss of our clients and give rise to complaints, litigation, liability and negative publicities, and in turn have a material adverse effect on our business reputation, financial condition, results of operations and reputation.

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

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

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We may be subject to litigation and regulatory investigations and proceedings and may not always be successful in defending ourselves against such claims or proceedings.

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales, distribution or underwriting practices, product design, fraud and misconduct, as well as protection of personal and confidential information of our clients. We may from time to time be subject to arbitration claims and lawsuits in the ordinary course of our business. We may also be subject to inquiries, investigations and proceedings by regulatory and other governmental agencies. Actions brought against us may result in administrative measures, settlements, injunctions, fines, penalties, negative publicities or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase. In addition, our affiliated organizations may also encounter litigation, regulatory investigations and proceedings for the practices in their business operations. A significant judgment or regulatory action against us, or a disruption in our business arising from adverse adjudications in proceedings against our directors, officers or employees, would have a material adverse effect on our liquidity, business, financial condition, results of operations and prospects.

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

We are subject to various laws, regulations and rules governing the protection of personal data and confidential information of our clients. We routinely transmit and receive personal data and confidential information of our clients through the Internet, by email and other electronic means. Third parties may have the technology or expertise to breach the security of our transaction data and we may not be able to ensure that our vendors, service providers, counterparties or other third parties have appropriate measures in place to protect the confidentiality of such information. In addition, there is no assurance that our employees who have access to personal data and confidential information of our clients will not improperly use such data or information. If we fail to protect our clients’ personal data and confidential information, the competent authorities may issue sanctions against us and we may have to provide economic compensation for losses arising from such failure. In addition, incidents of mishandling personal information or failure to protect the confidential information of our clients could bring reputational harm to us, which may materially and adversely affect our reputation, business and prospects.

We have not obtained title certificates to some of the properties we own and some of our lessors lack or have not presented to us appropriate title certificates for the properties we lease from them.

As of December 31, 2015, we owned 35 properties and parking spaces in China with a total GFA of approximately 27,418 square meters. Among these 35 properties and parking spaces, we had only obtained building ownership certificates but had not obtained land use rights certificates for seven properties with a total GFA of approximately 8,857 square meters, representing approximately 32.3% of the total GFA of our self-owned properties. As of December 31, 2015, we leased for the purpose of our principal business operations 159 properties in China with a total GFA of 145,080 square meters. Among these 159 properties, we have not been provided by the lessors with the building ownership certificates for 26 properties with a total GFA of approximately 16,165 square meters, representing approximately

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11.1% of the total GFA of our leased properties in China. We use these seven owned properties and 26 leased properties primarily for offices and securities branches. See “Business—Properties.”

We cannot assure you that our use and occupation of these properties will not be challenged. If we or our landlords cannot obtain the relevant building ownership certificates and land use rights certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may have to find alternative properties, incur additional relocation costs, or our business operations may be disrupted, any of which may have an adverse effect on our business, financial condition, results of operations and prospects.

We may be subject to potential passing off claim.

Our Company was incorporated as a limited liability company under the name of Orient Securities Limited Liability Company (東方證券有限責任公司) in the PRC in 1997. Our Company was converted into a joint stock limited company and changed our name to “东方证券股份有限公司” in 2003, and have since been carrying on business under the Chinese name of “东方证券股份有限公司” in the PRC. We had not been subject to any material infringement of our intellectual properties rights or allegations of infringements by third parties during the Track Record Period and as of the Latest Practicable Date.

Our Company was registered in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance under its Chinese name of “東方證券股份有限公司” on August 10, 2015. Our Company had intended to register its English name “Orient Securities Company Limited” as part of its non-Hong Kong company registration. However, we were informed by the Companies Registry that our English name “Orient Securities Company Limited” is too similar to another Hong Kong registered company named ORIENT SECURITIES LIMITED (東方匯財證券有限公司). As such, our Company proceeded to register as a non-Hong Kong company by only using its Chinese name “東方證券股份有限公司” on August 10, 2015.

Insofar as our Company is aware, ORIENT SECURITIES LIMITED (東方匯財證券有限公司) was incorporated in Hong Kong on June 11, 1999. It is a wholly-owned indirect subsidiary of ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED (東方匯財證券國際有限公司), which is listed on the Growth Enterprise Market Board of the Stock Exchange with stock code 8001.

Online searches conducted on the website of the Trade Marks Registry did not reveal that ORIENT SECURITIES LIMITED (東方匯財證券有限公司) or ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED (東方匯財證券國際有限公司) owns any relevant registered trademarks. As such, there can be no question of any infringement of any registered trademark of ORIENT SECURITIES LIMITED (東方匯財證券有限公司) or ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED (東方匯財證券國際有限公司). In order to minimize the possible risks arising from potential passing off claims, we have resolved to adopt the following measures:

- i. we have registered the business name “東方證券” (Chinese) and “DFZQ” (English) and will carry on business in Hong Kong under such business names;
- ii. we have applied for the registrations of the trademark of the combination of “” together with our Chinese business name “東方證券” and our English business name “DFZQ” in Hong Kong; and

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- iii. we intend to put a prominent notice on our existing website upon [REDACTED] of our H Shares on the Hong Kong Stock Exchange that our Company is a PRC incorporated company and is referred to as and carrying on business in Hong Kong under the Chinese business name of “東方證券” and the English business name of “DFZQ”.

We consider that with such above steps taken, if a claim for passing off is brought against us, we would have a strong defense to such claim. Notwithstanding the taking of above steps to minimize the risks arising from potential passing off claims, there is no guarantee that ORIENT SECURITIES LIMITED (東方匯財證券有限公司) or ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED (東方匯財證券國際有限公司) will not make any claims against us. Intellectual property rights litigation can be costly and time-consuming, and could divert our management’s attention from business operations. In addition, should we be held liable for passing off, our reputation as well as our business, financial condition and results of operations may be materially and adversely affected.

Please see the section headed “Business—Intellectual Property” of this document for further information.

Our largest Shareholder is able to exercise significant influence over us.

Following the completion of the [REDACTED], Shenergy Group will remain the largest shareholder of our Company and will hold approximately [REDACTED]% of our outstanding shares immediately after the completion of the [REDACTED] and assuming that the [REDACTED] is not exercised. As Shenergy Group will remain the largest Shareholder of our Company, it will have the ability to exercise significant influence over us, including, among others, matters relating to:

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

Although Shenergy Group has not interfered with the exercise of shareholder rights by subordinate units or requested that subordinate units act in concert, it has substantial influence over us and its interests may not be consistent with that of other Shareholders of our Company.

RISKS RELATING TO CHINA

Economic, political and social conditions in China and government policies could affect our business and prospects.

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

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Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in China 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 emphasizing the utilization 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 us. For example, our 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 us. If the business environment in China deteriorates, our business in China may also be materially and adversely affected.

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

The PRC legal system has inherent uncertainties that could limit the legal protection available to you.

PRC laws and regulations govern our operations in China. We and most of our operating subsidiaries are organized under PRC laws. China’s legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value unless the Supreme People’s Court of the People’s Republic of China otherwise provided. Since the late 1970s, China has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organization and governance, commerce, taxation and trade.

However, many of these laws and regulations, particularly with respect to the financial service industry, are relatively new and evolving, are subject to different interpretations and may be inconsistently implemented and enforced. In addition, only limited volumes of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of China’s laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to investors, and can adversely affect the value of your investment.

In particular, the PRC financial service industry is highly regulated. Many aspects of our business depend upon the receipt of the relevant government authorities’ approvals and permits. As PRC legal system and financial service industry develop, changes in such laws and regulations, or in their interpretation or enforcement, could materially adversely affect our business, financial condition and results of operations.

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

Investments in PRC securities firms are subject to ownership restrictions. Prior approval from the CSRC is required for any person or entity to hold, directly or indirectly, 5% or more of the registered capital or total issued shares of a PRC securities firm. If a shareholder of a PRC securities firm increases its direct and indirect shareholding to 5% or more without obtaining prior approval from the CSRC, such shareholder’s voting right is invalid and the shareholder could be subject to the CSRC sanctions, such as the correction of such misconduct, fines and confiscation of any related gains. In addition, our Articles of Association prohibit any entity or individual from directly or indirectly holding more than 5% equity interest in our Company without the approval of the CSRC. If any violation is not rectified in timely manner, any corresponding shares will not carry voting rights during the period of violation. Current ownership restrictions and future changes in ownership restrictions as imposed by the PRC government and our Articles of Association may materially and adversely affect the value of your investment.

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

We are a company incorporated under the laws of the PRC and a substantial majority of our assets and subsidiaries are located in China. In addition, most of our Directors, Supervisors and executive officers reside within China and the assets of our Directors, Supervisors and management are likely to be located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our Directors, Supervisors and management including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of court judgments with the United States, the United Kingdom, Japan or most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of court judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States, the United Kingdom, Japan or most other western countries in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

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

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares, or non-PRC resident individual holders, are subject to PRC individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of GuoShuiFa [1993] No. 045 (關於國稅發[1993]045號檔廢止後有關個人所得稅徵管問題的通知) (GuoShui Han [2011] No. 348), dated June 28, 2011, issued by the SAT, the tax rate applicable to dividends paid to non-PRC resident individual holders of H Shares varies from 5.0% to 20.0% (usually 10.0%), depending on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides as well as the tax arrangement between the PRC and Hong Kong. Non-PRC resident individual holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. For additional information, see “Appendix IV—Taxation and Foreign Exchange—Taxation of Equity Holders—PRC Taxation.” In addition, under the Individual Income Tax Law of the PRC and its implementation regulations, non-PRC resident individual holders of H Shares are subject to individual income tax at a

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rate of 20.0% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the MOF and the SAT on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. Although it is not certain whether such exemption is applicable to H Shares, to our knowledge, as of the Latest Practicable Date, in practice the PRC tax authorities have not sought to collect individual income tax on non-PRC resident individual holders for such gains. If such tax is collected in the future, the value of such individual holders’ investments in H Shares may be materially and adversely affected.

Under the EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (GuoShui Han [2008] No. 897), promulgated by the SAT, on November 6, 2008, we intend to withhold tax at 10.0% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities’ approval. See “Appendix III—Taxation and Foreign Exchange—Taxation of Equity Holders—PRC Taxation.” There are uncertainties regarding the interpretation and implementation of the EIT law and its implementing rules by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition of H Shares will be collected from non-PRC resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-PRC resident enterprise holders’ investments in H Shares may be materially and adversely affected.

Payment of dividends is subject to restrictions under PRC law.

For 2013, 2014 and 2015, we declared cash dividends of RMB428.2 million, RMB792.3 million and RMB2,376.8 million, respectively. Under PRC law and our Articles of Association, we may only pay dividends out of our distributable profits. Distributable profits are our after-tax profits as determined by PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Furthermore, pursuant to the rules promulgated by the CSRC, we are not allowed to distribute gains from the fair value changes of financial assets that are included in distributable profits as cash dividends. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

In addition, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have distributable profits for that year as

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determined under IFRS, or vice versa. As a result, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders.

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

Substantially all of our revenue and expenses are denominated in Renminbi, which is currently not a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account, which includes the payment of dividends, do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks in China. As a result, following the completion of the [REDACTED], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Our foreign exchange transactions under the capital account, however, must be approved in advance by the SAFE. We cannot assure you that we will be able to obtain such approval in a timely manner, or at all.

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

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

While we generate most of our revenue in China, we also offer securities products and services in Hong Kong to overseas clients. A portion of our revenue, expenses and bank borrowings is denominated in Hong Kong dollars and US dollars, although our functional currency is the Renminbi. As a result, fluctuations in exchange rates, particularly between the Renminbi, Hong Kong dollar and US dollar, could affect our profitability and may result in foreign currency exchange losses of our foreign currency-denominated assets and liabilities.

The exchange rate of Renminbi to the US dollar is under a managed floating exchange rate system and has gradually risen over the past decade. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi to the US dollar to make the exchange rate of Renminbi more market-based. The modified mechanism allows traders to consider the closing exchange rate in the previous trading day when they quote the midpoint price for Renminbi against the US dollar. As a result, the midpoint price of Renminbi against the US dollar depreciated by 4.78% from August 10 to August 27, 2015 and further fluctuated in January 2016. We cannot predict how the Renminbi will fluctuate in the future. Any significant fluctuation in the value of the Renminbi

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against foreign currencies could lead to fluctuation in the value of our foreign currency-denominated revenue and assets and adversely affect our business, financial condition, results of operations and prospects.

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

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

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, swine influenza caused by the H1N1 virus, or H1N1 influenza, Middle Eastern respiratory syndrome, or MERS, or Ebola virus, may materially and adversely affect our business, financial condition and results of operations. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially and adversely affect our business. Moreover, China has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in China may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, SARS, H1N1 influenza, Ebola or other epidemics, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our clients, which may materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

Our A Shares were listed in China in March 2015 and the characteristics of the A share and H share markets may differ.

Our A Shares were listed on the Shanghai Stock Exchange in March 2015. Following the [REDACTED], our A Shares will continue to be traded on the Shanghai Stock Exchange and our H Shares will be traded on the Hong Kong Stock Exchange. Under current PRC laws and regulations, without approval from the relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible, and there is no trading or settlement between the H share and A share market. With different trading characteristics, the H share and A share market have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the trading performance of our H Shares and A Shares may not be comparable. Nonetheless, fluctuations in the price of our A Shares may adversely affect the price of our H Shares, and *vice versa*. Due to the different characteristics of the H share and A share market, the historical prices of our A Shares may not be indicative of the performance of our H Shares. You should therefore not place undue reliance on the prior trading history of our A Shares when evaluating an investment in our H Shares.

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

Prior to the [REDACTED], there has been no public market for our H Shares. The initial [REDACTED] range for our H Shares was the result of negotiations between us and the [REDACTED] on behalf of the [REDACTED], and the [REDACTED] may differ significantly from the market price for our H Shares following the [REDACTED]. We have applied for [REDACTED] of, and permission to deal in, our H Shares on the Hong Kong Stock Exchange. A [REDACTED] on the Hong Kong Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, will be sustained following the [REDACTED] or that the market price of our H Shares will not decline following the [REDACTED]. Furthermore, the price and trading volume of our H Shares may be volatile. The following factors may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and operating results;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of additional H Shares by us or other shareholders.

Moreover, the securities market has from time to time experienced significant price and volume fluctuations that were unrelated or not directly related to the operating performance of the underlying companies. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading volume of our H Shares.

Since there will be a gap of several days between pricing and trading of our [REDACTED], holders of our [REDACTED] are subject to the risk that the price of our [REDACTED] could fall during the period before trading of our [REDACTED] begins.

The [REDACTED] of our H Shares is expected to be determined on the [REDACTED]. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the [REDACTED]. As a result, investors may not be able to sell or deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

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Future sales or perceived sales of substantial amounts of our H Shares in the public market or the conversion of our A Shares into H Shares could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of substantial future sales of our H Shares or other securities relating to Shares in the public market. Such a decline could also occur with the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could materially and adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favorable time and price. Our shareholders would experience a dilution in their holdings upon the issuance or sale of additional securities for any purpose.

In addition, subject to the approval of the CSRC or the authorized securities regulatory authorities of the State Council, our A Shares may be transferred to overseas investors and such transferred shares may be listed or traded on an overseas stock exchange provided certain conditions are met and certain procedures are completed. In the event of the conversion of A Shares into H Shares for the [REDACTED] and trading on the Hong Kong Stock Exchange, we must obtain prior approval from the CSRC and other relevant PRC regulatory authorities and the Hong Kong Stock Exchange. Approvals from holders of our A Shares and H Shares as separate classes are not required for the listing and trading of the converted H Shares. See “Share Capital—Conversion of A Shares into H Shares for [REDACTED] and Trading on the Hong Kong Stock Exchange.” Conversion of a substantial number of our A Shares into H Shares, or the perception that such conversion may occur, could materially adversely affect the price of our H Shares.

In addition, assuming the [REDACTED] is not exercised, [REDACTED] million A Shares will be converted into H Shares and transferred to the NSSF in connection with the [REDACTED]. The NSSF has not entered into any lock-up agreement with us or the [REDACTED] and would be free to sell its H Shares any time after the [REDACTED]. This may also materially and adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and price favorable to us.

As the [REDACTED] of our H Shares is higher than our consolidated net tangible book value per share, purchasers of our H Shares in the [REDACTED] may experience immediate dilution upon such purchases.

As the [REDACTED] of our H Shares is higher than the consolidated net tangible assets per share immediately prior to the [REDACTED], purchasers of our H Shares in the [REDACTED] will experience an immediate dilution in [REDACTED] of [REDACTED] per H Share (assuming an [REDACTED] of HK\$[REDACTED] per H Share, being the mid-point of the stated [REDACTED] range, and assuming the [REDACTED] for the [REDACTED] is not exercised). Our existing Shareholders will receive an increase in the [REDACTED] value per share of their shares. In addition, holders of our H Shares may experience further dilution of their interest if the [REDACTED] exercise the [REDACTED] or if we issue additional shares in the future to raise additional capital.

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We have significant discretion as to how we will use the net [REDACTED] of the [REDACTED] and you may not necessarily agree with how we use them.

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

Possible FATCA Withholding After 2018

Provisions under the U.S. Internal Revenue Code of 1986, as amended (the “Code”) and U.S. Treasury regulations promulgated thereunder commonly known as “FATCA”, impose a 30% withholding tax on certain “foreign pass thru payments” made by a non-U.S. financial institution (including an intermediary) that has entered into an agreement with the U.S. Internal Revenue Service (the “IRS”) to perform certain diligence and reporting obligations with respect to the financial institution’s U.S.-owned accounts (each such non-U.S. financial institution, a “Participating Foreign Financial Institution”). If the Company or any intermediary through which a holder may hold H Shares is or becomes a Participating Foreign Financial Institution, this withholding may be imposed on payments on the H Shares to any non-U.S. financial institution (including an intermediary) that is not a Participating Foreign Financial Institution and is not otherwise exempt from FATCA and other holders who do not provide sufficient identifying information to the payor, to the extent such payments are considered “foreign pass thru payments.” Under current guidance, the term “foreign pass thru payment” is not defined and it is therefore not clear whether or to what extent payments on the H Shares would be considered foreign pass thru payments. Withholding on foreign pass thru payments would not be required with respect to payments made before January 1, 2019. The United States has entered into intergovernmental agreements with certain jurisdictions (including an agreement in substance with the PRC) that modify the FATCA withholding regime described above. It is not yet clear how the intergovernmental agreements between the United States and these jurisdictions will address “foreign pass thru payments” and whether such agreements will require the Company or other financial institutions to withhold or report on foreign pass thru payments. Prospective investors should consult their tax advisers regarding the consequences of FATCA, or any intergovernmental agreement or non-U.S. legislation implementing FATCA, to their investment in H Shares.

Certain facts and statistics derived from government and third-party sources contained in this document may not be reliable.

We have derived certain facts and other statistics in this document, particularly those relating to China, China’s economy and the industry in which we operate, from information provided by the PRC and other government agencies, industry associations, independent research institutes or other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the [REDACTED] or any of our or their respective affiliates or advisors and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled inside or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published

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information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

You should not place any reliance on any information released by us in connection with the listing of our A Shares on the Shanghai Stock Exchange.

Following the listing of our A Shares on the Shanghai Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in China. As a result, from time to time we publicly release information, including financial statements and financial data, relating to us on the Shanghai Stock Exchange or other media outlets designated by the Shanghai Stock Exchange. However, the information announced by us in connection with our A Shares is based on regulatory requirements of the securities authorities and market practices in China which are different from those applicable to the [REDACTED]. In particular, the financial statements and financial data released in China are prepared under PRC GAAP, which differ in certain material respects from IFRS. Such information does not and will not form a part of this document. As a result, prospective investors in our H Shares are reminded that, in making their investment decisions as to whether to [REDACTED] our H Shares, they should rely only on the financial, operating and other information included in this document and the [REDACTED]. By applying to [REDACTED] our H Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong with respect to the [REDACTED].

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

For 2013, 2014 and 2015, we declared cash dividends of RMB428.2 million, RMB792.3 million and RMB2,376.8 million, respectively. However, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future. Our Board of Directors has discretion in determining the frequency and amount of dividend distributions, which will be subject to the approval of our Shareholders at the Shareholders’ meeting. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, capital adequacy ratios, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS, whichever is lower, our Articles of Association, statutory and regulatory restrictions on the payment of dividends and other factors that our Board of Directors deems relevant. See “Financial Information—Dividend Policy.” There is no assurance that we will adopt the same dividend policy as we have adopted in the past.

It is possible that we could be deemed a “covered fund” under the Volcker Rule, which could result in reduced interest in the H Shares from banking organizations, and could potentially reduce the liquidity of the H Shares on the secondary market

It is possible that the Company could be deemed a “covered fund” within the meaning of Section 13 of the U.S. Bank Holding Company Act of 1956, as amended, commonly known as the Volcker Rule. If the Company is a covered fund, then a financial institution subject to the Volcker Rule, including a U.S. banking organization, a non-U.S. banking organization with U.S. bank branches

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or agencies, or an affiliate (a “Banking Entity”) would be prohibited from holding, even briefly, our H Shares unless such a Banking Entity could rely on an exception to the Volcker Rule’s prohibition. Among others, a Banking Entity may be able to rely on the exemptions for underwriting or market making activities or for investments made solely outside the United States. In addition, if the Company is a covered fund, then in some cases H Shares acquired by a Banking Entity may count towards the aggregate limit on covered fund interests that the Banking Entity and its affiliates are permitted to hold under the Volcker Rule, and the value of H Shares may have to be deducted from the Banking Entity’s tier 1 capital. These limitations could result in some Banking Entities avoiding the purchase of the H Shares, which, in turn, could diminish the liquidity of the H Shares on the secondary market. Investors should consult with their legal advisors about the impact of the Volcker Rule on their investment in H Shares.

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

In preparation for the [REDACTED], we have applied to the Stock Exchange for the following waivers and consents from strict compliance with the relevant provisions of the Hong Kong Listing Rules.

MANAGEMENT PRESENCE

Pursuant to Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, our Company must have sufficient management presence in Hong Kong, and this normally means that at least two of our executive Directors must ordinarily reside in Hong Kong. Given that our business operations are principally located, managed and conducted in the PRC and the Group’s head office is situated in the PRC, and all of our executive Directors and most of the Group’s senior management are based outside of Hong Kong and are expected to continue to be based outside of Hong Kong. In addition, most of the Group’s assets are based outside of Hong Kong. We consider that it would be unduly burdensome for us to maintain sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted us,] a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, subject to the following conditions to maintain regular and effective communication between the Stock Exchange and us:

1. We have appointed Mr. Pan Xinjun and Mr. Jin Wenzhong as our authorized representatives (“**Authorized Representatives**”) for the purpose of Rule 3.05 of the Listing Rules. They will act as our principal channel of communication with the Stock Exchange. Although Mr. Pan Xinjun and Mr. Jin Wenzhong reside in the PRC, they possess valid travel documents to visit Hong Kong and are able to renew such documents when they expire in order to visit Hong Kong. The Authorized Representatives will also provide their usual contact details, and each of the Authorized Representatives has confirmed that he will be readily contactable by the Stock Exchange and will be available to meet with the Stock Exchange to discuss any matters within a reasonable period of time upon request of the Stock Exchange;
2. When the Stock Exchange wishes to contact the Directors on any matter, each of the Authorized Representatives will have all necessary means to contact all of our Directors (including our independent non-executive Directors) and senior management team promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. To enhance the communication between the Stock Exchange, our Authorized Representatives and our Directors, we have implemented the following measures: (a) each Director must provide his mobile phone number, office phone number, e-mail address and facsimile number to the Authorized Representatives; (b) in the event that a Director expects to travel and/or be out of office, he will provide the phone number of the place of his accommodation or other means of communications to the Authorized Representatives; and (c) we have provided the mobile phone number, office phone number, e-mail address and facsimile number of each Director to the Stock Exchange;
3. Each of the Directors who does not ordinarily reside in Hong Kong has confirmed that they possess valid travel documents to visit Hong Kong and can apply for valid travel documents to visit Hong Kong within a reasonable period of time. Accordingly, each of the Directors will be able to meet with the Stock Exchange within a reasonable period of time;

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

4. Ms. Leung Wing Han Sharon, as one of our joint company secretary and a Hong Kong resident, will, among other things, act as our Company’s additional channel of communication with the Stock Exchange and be able to answer enquiries from the Stock Exchange. Ms. Leung will maintain constant contact with our Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary;
5. We have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor (the “Compliance Advisor”) upon [REDACTED] pursuant to Rule 3A.19 of the Listing Rules for a period commencing on the [REDACTED] and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the date of [REDACTED]. The Compliance Advisor will have access at all times to our Authorized Representatives, the Directors and other senior management and will act as the additional channel of communication with the Stock Exchange when the Authorized Representatives are not available. We will ensure that there are adequate and efficient means of communication among us, our Authorized Representatives, Directors, other officers and the Compliance Advisor;
6. We have provided the Stock Exchange with the names, mobile and office telephone numbers, facsimile numbers and e-mail addresses of at least two of the Compliance Advisor’s officers who will act as the Compliance Advisor’s contact persons between the Stock Exchange and the Company pursuant to Rule 19A.06(4) of the Hong Kong Listing Rules; and
7. Meetings between the Stock Exchange and our Directors could be arranged through the Authorized Representatives or the Compliance Advisor, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any change in our Authorized Representatives and the Compliance Advisor.

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

QUALIFICATIONS OF COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Hong Kong Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note (1) to Rule 3.28 of the Hong Kong Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- i. a member of the Hong Kong Institute of Chartered Secretaries;
- ii. a solicitor or a barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

- iii. a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

In assessing the “relevant experience,” the Stock Exchange will consider the individual’s (i) length of employment with the issuer and other issuers and the roles he/she played, (ii) familiarity with the Hong Kong Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code, (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules, and (iv) professional qualifications in other jurisdictions.

Our Company has appointed Mr. Yang Yucheng as one of the joint company secretaries. He has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Hong Kong Listing Rules, and may not be able to solely fulfill the requirements of the Hong Kong Listing Rules. Therefore, we have appointed Ms. Leung Wing Han Sharon, a fellow member of the Hong Kong Institute of Chartered Secretaries and a member of the Hong Kong Institute of Certified Public Accountants, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Hong Kong Listing Rules to act as the other joint company secretary and to provide assistance to Mr. Yang Yucheng for an initial period of three years from the [REDACTED] to enable Mr. Yang Yucheng to acquire the “relevant experience” under Note (2) to Rule 3.28 of the Hong Kong Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Hong Kong Listing Rules.

Ms. Leung Wing Han Sharon will work closely with Mr. Yang Yucheng to jointly discharge the duties and responsibilities as company secretary and assist Mr. Yang Yucheng to acquire the relevant experience as required under Rules 3.28 and 8.17 of the Hong Kong Listing Rules. Mr. Yang will also be assisted by (a) the Compliance Advisor of the Company for the first full financial year from the date of [REDACTED], particularly in relation to Hong Kong corporate governance practices and compliance issues; and (b) the Hong Kong legal advisors of the Company, on matters concerning the Company’s on-going compliance with the Listing Rules and the applicable laws and regulations. In addition, Mr. Yang Yucheng will endeavor to attend relevant trainings and familiarize himself with the Hong Kong Listing Rules and duties required for a company secretary of a PRC issuer listed on the Stock Exchange.

We have applied to the Stock Exchange for [, and the Stock Exchange has granted us,] a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The waiver is valid for an initial period of three years from the [REDACTED], and is granted on the condition that we engage Ms. Leung Wing Han Sharon, who possesses all the requisite qualifications required under Rule 3.28 of the Hong Kong Listing Rules, to assist Mr. Yang Yucheng in discharging his duties as a joint company secretary and in gaining the “relevant experience” as required under Note (2) to Rule 3.28 of the Hong Kong Listing Rules.

Upon the expiration of the initial three-year period, the qualifications of Mr. Yang Yucheng will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Hong Kong Listing Rules can be satisfied and whether the need for on-going assistance will continue. In the event Mr. Yang Yucheng fulfills all the requirements stipulated at the end of the initial three-year period, the above joint company secretary arrangement would no longer be necessary for our Company.

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

ALLOCATION OF H SHARES TO EXISTING PUBLIC HOLDERS OF A SHARES AND THEIR CLOSE ASSOCIATES UNDER RULE 10.04 OF AND PARAGRAPH 5(2) OF APPENDIX 6 TO THE HONG KONG LISTING RULES

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which [REDACTED] is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are fulfilled.

The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows: (i) no securities are [REDACTED] to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.

Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules provides that, unless with the prior written consent of the Stock Exchange, no allocations will be permitted to directors or existing shareholders of the applicant or their close associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Hong Kong Listing Rules are fulfilled.

We have applied to the Stock Exchange for [, and the Stock Exchange has granted us,] a waiver from strict compliance with the requirements of Rule 10.04 of the Hong Kong Listing Rules and its consent under Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules to permit the Company to allocate H Shares in the [REDACTED] to existing public holders of A Shares and their close associates subject to the following conditions:

1. each existing holder of A Shares to whom the Company may [REDACTED] H Shares in the [REDACTED] must hold less than 5% of the voting power prior to the [REDACTED] of our Company on the Stock Exchange ;
2. such holders of A Shares and their close associates are not, and will not be, a core connected person (as defined under the Hong Kong Listing Rules) of our Company or any close associate (as defined under the Hong Kong Listing Rules) of any such core connected person immediately prior to or following the [REDACTED];
3. such holders of A Shares have no right to appoint directors of the company and does not have other special rights; and
4. [REDACTED] to such holders of A Shares and their close associates will not affect our ability to satisfy the public float requirement under Rule 8.08 of the Hong Kong Listing Rules.

[The Company, the Joint Sponsors and the [REDACTED] have provided the Stock Exchange with written confirmation in accordance with the Stock Exchange Guidance Letter (HKEx-GL85-16).]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. PAN Xinjun (潘鑫軍), <i>Chairman</i>	Room 502, No. 1 Lane 186 Jiangsu Road Changning District Shanghai PRC	Chinese
Mr. JIN Wenzhong (金文忠), <i>President</i>	Room 802, No. 25 Lane 815 Taolin Road Pudong New Area Shanghai PRC	Chinese
Non-executive Directors		
Mr. WU Jianxiong (吳建雄), <i>Vice chairman</i>	Room 1103, No. 2 Lane 345 Ruijin South Road Huangpu District Shanghai PRC	Chinese
Mr. ZHANG Qian (張芊)	Room 501, No. 52 Lane 2196 Zhongshan North Road Putuo District Shanghai PRC	Chinese
Mr. WU Junhao (吳俊豪)	Room 1502, No. 63 Lane 353 Ningxia Road Putuo District Shanghai PRC	Chinese
Mr. CHEN Bin (陳斌)	Room 702, No 381 Feihong Road Hongkou District Shanghai PRC	Chinese
Mr. LI Xiang (李翔)	Room 501, No. 59 Lane 353 Ningxia Road Putuo District Shanghai PRC	Chinese
Mr. XU Chao (徐潮)	Room 302, No. A7 Lane 291 Jiangchuan Road Minhang District Shanghai PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality
Mr. CHEN Bichang (陳必昌)	Room 602, No. 11 Lane 1035 Tongxin Road Hongkou District Shanghai PRC	Chinese
Mr. ZHOU Yao (周堯)	Room 502, 502A, No. 16 Lane 287 Nanyangjing Road Pudong New Area Shanghai PRC	Chinese
Independent Non-executive Directors		
Mr. LI Zhiqiang (李志強)	Block 3F-B, Luxembourg Pavilion No. 155 Zhidan Road Putuo District Shanghai PRC	Chinese
Mr. XU Guoxiang (徐國祥)	Room 101, No. 38 Lane 580 Zhengli Road Yangpu District Shanghai PRC	Chinese
Mr. TAO Xiuming (陶修明)	No. 1704, Building 1 No. 2 Yuhui East Road Chaoyang District Beijing PRC	Chinese
Mr. WEI Anning (尉安寧)	No. 516, Lane 1155 Xiuyan Road, Kangqiao County Pudong New Area Shanghai PRC	Chinese
Mr. PAN Fei (潘飛)	Room 501, No. 50, Lane 75 Wuchuan Road Yangpu District Shanghai PRC	Chinese
Mr. XU Zhiming (許志明) ¹	Flat 4A, Block 14 Coastline Villa Discovery Bay Hong Kong	Hong Kong

SUPERVISORS

Mr. SONG Xuefeng (宋雪楓) <i>Chairman</i>	Room 201, No. 20 Lane 555 Wuyi Road Changning District Shanghai PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality
Mr. LI Bin (李賓) <i>Vice chairman, employee supervisor</i> . . .	Room 13D, No. 409 Zhongshanbei Road Hongkou District Shanghai PRC	Chinese
Mr. LIU Wenbin (劉文彬)	No.151 Xinmin Road Yuelu District Changsha PRC	Chinese
Mr. YIN Keding (尹克定)	Room 1101, No. 6 Lane 777 Renmin Road Huangpu District Shanghai PRC	Chinese
Mr. WU Zhengkui (吳正奎)	Room 301, No. 15 Lane 495 Fuquan Road Changning District Shanghai PRC	Chinese
Mr. ZHOU Wenwu (周文武) <i>Employee supervisor</i>	Room 201, No. 1 Lane 650 Liuying Road Jing'an District Shanghai PRC	Chinese
Mr. YAO Yuan (姚遠) <i>Employee supervisor</i>	No. 80, Lane 237 Feihong Road Hongkou District Shanghai PRC	Chinese

Note:

(1) The appointment of Mr. Xu Zhiming will take effect from the [REDACTED].

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

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE
[REDACTED]**

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors

Citigroup Global Markets Asia Limited

50/F, Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Goldman Sachs (Asia) L.L.C.

68/F, Cheung Kong Center
2 Queen’s Road Central
Central
Hong Kong

Nomura International (Hong Kong) Limited

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

[REDACTED]

Legal Advisors to our Company

As to Hong Kong and United States laws

Davis Polk & Wardwell

18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

As to Hong Kong laws

Stevenson, Wong & Co.

4/F, 5/F & 1602, Central Tower
28 Queens Road Central
Hong Kong

As to PRC law

Grandall Law Firm (Shanghai)

23-25/F, Garden Square
968 West Beijing Road
Shanghai
PRC

**Legal Advisors to the Joint Sponsors
and [REDACTED]**

As to Hong Kong and United States laws

Linklaters

10/F, Alexandra House
18 Chater Road
Hong Kong

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE
[REDACTED]**

As to PRC law

Commerce & Finance Law Offices

6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

Reporting Accountants

Deloitte Touche Tohmatsu

35/F, One Pacific Place
88 Queensway
Hong Kong

Financial Advisor

Orient Capital (Hong Kong) Limited

28/F-29/F
100 Queen’s Road Central
Central
Hong Kong

Compliance Advisor

Anglo Chinese Corporate Finance, Limited

40/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong
[REDACTED]

CORPORATE INFORMATION

Registered Office	22/F, 23/F and 25-29/F, Building 2 No. 318 Zhongshan South Road Shanghai PRC
Headquarters and Principal Place of Business in the PRC	22/F, 23/F and 25-29/F, Building 2 No. 318 Zhongshan South Road Shanghai PRC
Principal Place of Business in Hong Kong	28-29/F 100 Queen’s Road Central Central Hong Kong
Company’s Website	www.dfzq.com.cn <i>(information contained in this website does not form part of this document)</i>
Joint Company Secretaries	Mr. Yang Yucheng (楊玉成) 28/F, Building 2 No. 318 Zhongshan South Road Shanghai PRC Ms. Leung Wing Han Sharon (梁穎嫻) (FCIS, FCS, CPA, FCCA) 18/F, Tesbury Center 28 Queen’s Road East Wan Chai Hong Kong
Authorized Representatives	Mr. Pan Xinjun (潘鑫軍) Mr. Jin Wenzhong (金文忠)
Strategy Development Committee	Mr. Wu Jianxiong (吳建雄)(Chairman) Mr. Pan Xinjun (潘鑫軍) Mr. Jin Wenzhong (金文忠) Mr. Chen Bichang (陳必昌) Mr. Tao Xiuming (陶修明)
Compliance and Risk Management Committee	Mr. Pan Xinjun (潘鑫軍)(Chairman) Mr. Jin Wenzhong (金文忠) Mr. Li Xiang (李翔) Mr. Zhou Yao (周堯) Mr. Li Zhiqiang (李志強)
Audit Committee	Mr. Pan Fei (潘飛)(Chairman) Mr. Wu Junhao (吳俊豪)

CORPORATE INFORMATION

	Mr. Xu Chao (徐潮)
	Mr. Xu Guoxiang (徐國祥)
	Mr. Wei Anning (尉安寧)
Remuneration and Nomination Committee	Mr. Li Zhiqiang (李志強)(Chairman)
	Mr. Zhang Qian (張芊)
	Mr. Chen Bin (陳斌)
	Mr. Xu Guoxiang (徐國祥)
	Mr. Wei Anning (尉安寧)
	[REDACTED]
Principal Banks	Shanghai Pudong Development Bank Co., Ltd Shanghai Branch No.12 Zhongshan No. 1 Road East Shanghai PRC Industrial and Commercial Bank of China Limited Shanghai Branch No.9 Pudong Avenue Shanghai PRC Industrial Bank Co., Ltd. Shanghai Branch Shanghai Xingye Mansion No.168, Jiangning Road Shanghai PRC Bank of Shanghai Co., Ltd. Huangpu Sub-branch No.120 Fuzhou Road Shanghai PRC Bank of Nanjing Co., Ltd. Shanghai Branch No.933 Zhongshan North Road Shanghai PRC

INDUSTRY OVERVIEW

This section contains information and statistics on our industry. The relevant information and statistics are excerpted and drawn from various official or publicly available publications. Besides statistics, market share data and industry information derived from open government data, the information contained in this section is derived from Wind Info, Dealogic and the Research Institute of ChinaVenture.

- Wind Info: an integrated service provider of financial data, information and software related to the Chinese domestic market. Historical data provided by Wind Info are collected by Wind Info independently from various public information sources, including, among others, the industry associations, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.*
- Dealogic: an international financial data and information provider. The database of Dealogic encompasses information on equity and debt capital markets, syndicated lending, M&As and institutional investors.*
- The Research Institute of ChinaVenture: an institution that provides industry research services.*

The information provided by Wind Info, Dealogic and the Research Institute of ChinaVenture is not prepared by us or Joint Sponsors, and it can be accessed by any person who is a subscriber of Wind Info, Dealogic and the Research Institute of ChinaVenture. We did not commission such institutions to provide the information and data presented.

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

OVERVIEW OF THE PRC ECONOMY

China is the world's second largest economy. In 2015, China achieved steady economic growth, with nominal GDP reaching RMB67.7 trillion according to the preliminary accounting results of the National Bureau of Statistics. From 2011 to 2015, the nominal GDP of China grew at a CAGR of 8.7%. With China's economic development, living standard of Chinese people has improved and their wealth has steadily grown. From 2011 to 2015, the Chinese urban household's per capita disposable income grew at a CAGR of 9.4% from RMB21,810 to RMB31,195. China's economic growth rate remains at the top among nations with large economies despite its recent slowdown.

The PRC economy has entered a new mode, the “new normal”, after a rapid development phase of 30 years. The growth rate of the economy has slowed down but the economic structure is

INDUSTRY OVERVIEW

undergoing transformation and optimization coupled with the release of market dynamics driven by innovation. Meanwhile, the strategic policies and measures, including “One Belt One Road,” expansion of Shanghai Free Trade Zone, and the establishment of new free trade zones in Guangdong, Tianjin and Fujian, provide new driving forces for economic development. In the financial sector, the Chinese government continues to promote various reforms to facilitate the development of the financial system, including internationalization of the Renminbi, liberalization of interest rates and exchange rates, relaxation of capital controls, simplification of capital market approvals and diversification of investment channels.

THE PRC CAPITAL MARKETS

Overview

The PRC capital markets are characterized by active trading activities, continued product innovation, gradual improvement of market mechanisms and an increasing number of market participants in recent years, giving rise to multi-tiered capital markets while steadily implementing reform and development initiatives. Thanks to the steady economic growth of China, the improvement of its regulatory environment as well as the constant introduction of new financial products and services, we believe that the PRC capital markets are maturing gradually, becoming more market oriented with a more advanced legal system. The State Council promulgated Several Opinions on Further Promoting the Healthy Development of the Capital Markets (《關於進一步促進資本市場健康發展的若干意見》) and Outline for the 13th Five-year Plan for Economic and Social Development in May 2014 and March 2016 respectively, aiming to establish the efficient, open and inclusive multi-tiered capital markets with a sound structure, comprehensive functions and transparent regulations by 2020, foster open, transparent and healthy capital markets, increase the proportion of direct financing, lower the level of leverage in the overall economy, work towards the implementation of a registration-based IPO regime, develop the multi-tiered equity financing market, improve registration-based bond issuance regime and bonds market infrastructure, and develop financial services catering to innovation.

Stock Market

The PRC stock market has experienced rapid growth since the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 1990. The PRC stock market consists of the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, SME Board and the ChiNext Board of the Shenzhen Stock Exchange, the NEEQ and regional equity exchanges. As of December 31, 2015, the total market capitalization of the companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange amounted to RMB53.1 trillion, ranking 2nd in the world, only after the United States. In 2015, gross stock trading turnover was RMB255.2 trillion, ranking 1st in the world. From 2011 to 2015, the average daily turnover of stocks traded on the Shanghai Stock Exchange increased to RMB545.5 billion from RMB97.4 billion, while the average daily turnover of stocks traded on the Shenzhen Stock Exchange increased to RMB502.0 billion from RMB75.4 billion in the same period. In 2015, the amount of equity financing in the Shanghai Stock Exchange and the Shenzhen Stock Exchange was RMB871.3 billion and RMB668.9 billion, respectively. The following table sets forth the number and market capitalization of the companies listed on the main boards, the

INDUSTRY OVERVIEW

SME Board and the ChiNext Board, and the value of Shanghai Stock Exchange Composite Index and Shenzhen Stock Exchange Component Index as of the dates indicated:

	As of the Last Trading Day of					CAGR of 2011 to 2015 (%)
	2011	2012	2013	2014	2015	
Number of Listed Companies:						
Main Boards	1,415	1,438	1,433	1,475	1,559	2.5
SME Board	646	701	701	732	777	4.7
ChiNext Board	281	355	355	406	493	15.1
Total	2,342	2,494	2,489	2,613	2,829	4.8
(RMB in billions)						(%)
Market Capitalization:						
Main Boards	17,989.5	19,282.2	18,682.1	29,963.8	37,143.7	19.9
SME Board	2,742.9	2,880.4	3,716.4	5,105.8	10,395.0	39.5
ChiNext Board	743.4	873.1	1,509.2	2,185.1	5,591.6	65.6
Total	21,475.8	23,035.7	23,907.7	37,254.7	53,130.4	25.4
Value of Indices:						
Shanghai Stock Exchange Composite Index	2,199.4	2,269.1	2,116.0	3,234.7	3,539.2	
Shenzhen Stock Exchange Component Index	8,918.8	9,116.5	8,121.8	11,014.6	12,664.9	

Source: Shanghai Stock Exchange and Shenzhen Stock Exchange

The OTC market was established in January 2006. It was inherited by the NEEQ and converted into a national platform in 2013. NEEQ provides channels for the public issuance, share transfer and financing for non-listed joint-stock companies, providing capital markets access to small, medium and micro enterprises. As of December 31, 2015, the number of NEEQ quoted companies was 5,129, representing a significant increase from 356 as of December 31, 2013. In addition, there are regional equity exchanges throughout the country, which mainly provide shares transfer services to non-listed small and micro enterprises. The State Council Executive Meeting in December 2015 further promotes to increase the number of companies listed on the NEEQ, and to standardize and develop the regional equity markets. In addition, relevant laws will be more developed to promote the listing of start-ups with special equity structure in the domestic market.

Bond Market

The PRC bond market has been growing rapidly in recent years. As of December 31, 2015, the PRC bond market has become the world's third largest. The total proceeds raised from bond issuances by PRC companies increased from RMB4.9 trillion in 2011 to RMB22.2 trillion in 2015, representing a CAGR of 46.0%. The PRC bond market has offered diversified products, including short-term enterprise financing bills launched in 2005, corporate bonds in 2007, medium-term notes in 2008, SME financial bonds in 2011, and SME private bonds in 2012. The following table sets forth the amount of

INDUSTRY OVERVIEW

proceeds raised through the major types of bond issuances by PRC companies for the periods indicated:

	For the year ended December 31,					CAGR of 2011 to 2015 (%)
	2011	2012	2013	2014	2015	
	(RMB in billions)					
Short-term financing bills and medium-term notes	1,745.8	2,278.2	2,311.3	3,163.0	4,556.6	27.1
Corporate bonds	129.1	262.6	172.2	140.8	1,013.2	67.4
Enterprise bonds	248.5	649.9	475.2	697.2	668.7	28.1
Financial bonds	2,322.5	2,651.0	2,681.4	3,570.8	4,327.8	16.8
Convertible bonds and exchangeable bonds ...	41.3	16.4	54.7	38.1	29.5	(8.1)
Bonds issued by government backed agencies and local government bonds	300.0	400.0	550.0	550.0	10,100.8	140.9
Asset-backed securities	1.3	28.1	28.0	331.0	605.7	366.5
Private placement notes	91.9	375.9	564.8	1,007.9	885.3	76.2
Total	4,880.5	6,662.2	6,787.7	9,498.7	22,187.6	46.0

Source: Wind Info

In recent years, the PRC bond market has benefited from a series of favorable policies, including improving the bond issuance mechanism, and encouraging innovation of bond products and asset-backed securitization. In June 2014, the National Inter-Bank Funding Center approved 41 trial market makers (including 13 securities firms) in addition to the original 25 market makers (including 3 securities firms) to engage in market-making activities in the PRC interbank bonds market. According to the information published by the National Inter-Bank Funding Center, as of December 31, 2015, the number of trial market makers in the PRC interbank bond market has expanded to 49 (including 17 securities firms).

Funds Market

The PRC funds market has experienced significant growth in recent years driven by the accumulation of personal wealth and the favorable regulatory environment. According to the Asset Management Association of China, as of December 31, 2015, there were 101 mutual fund management companies, offering 2,722 mutual funds, with AUM amounting to RMB8.4 trillion. In addition, according to the Asset Management Association of China, as of December 31, 2015, there were 24,054 private equity fund management companies, including private securities investment fund management companies, private equity investment fund management companies, venture capital fund management companies and other types of fund management companies, registered in the Asset Management Association of China with AUM amounting to RMB4.1 trillion.

Derivatives Market

Currently, the PRC derivatives market available to securities firms consists primarily of the commodity futures market, financial futures market, interest rate swaps market and stock options market, among which, the futures market has experienced rapid development in recent years. The commodity futures market in China has been one of the largest commodity futures markets in the world. According to China Futures Association, total trading volume in the PRC commodity futures increased at a CAGR of 9.8% from 2011 to 2015. The financial futures market has also been growing rapidly in recent years. Stock index futures was launched in the PRC in April 2010, and its total trading volume increased at a CAGR of 75.1% from 2011 to 2015. Treasury bond futures were re-listed for trading in September 2013. In 2015, the accumulated trading volume for the year reached RMB6,010.7 billion. On February 9, 2015, the SSE 50 ETF option was also listed for trading. In 2015, the accumulated trading turnover for the year reached 23.27 million contracts. Apart from the derivatives

INDUSTRY OVERVIEW

traded on stock exchanges, other derivatives like OTC options are also traded in the OTC market in China. According to the data of SAC, as of December 31, 2015, the outstanding original nominal principal balance of the OTC derivatives amounted to RMB319.0 billion. All these developments will further diversify product offerings and promote growth of the derivatives market in China.

In recent years, the Chinese government has encouraged and promoted the development of the derivatives market. In January 2015, the CSRC promulgated the Administrative Measures for the Stock Options Trading Trial Scheme (《股票期權交易試點管理辦法》) to allow PRC securities and futures firms to engage in the trading and market-making of stock options. Going forward, as investors become more professional and mature, market demand for structured financial products is expected to increase, and more varieties of derivative products will be offered, among which, financial derivatives such as foreign exchange futures and interest rate futures, which have been actively traded in developed markets, are expected to launch in China, further diversifying the sources of revenue for the securities industry.

Development Trends of the PRC Capital Markets

Continual Optimization of the Market Structure

Despite sustained and rapid growth of the PRC capital markets over the past years, there is still significant potential for growth and optimization compared with major developed market. In terms of the securities industry’s share of national economy, the securitization ratio (defined as the ratio of the total market capitalization of securities market to GDP) of the PRC increased from 40.7% by the end of 2013 to 78.5% by the end of 2015. This represents substantial growth potential when compared with the securitization ratio of the United States of 139.7% by the end of 2015. As for the structure of the PRC capital markets, the current social financing in China is still dominated by indirect financing such as bank borrowing despite gradual diversification. For example, the proportion of the amount of bank borrowing to the total amount of social financing in China (including amounts raised through bank borrowing, equity issuance and bond issuance) decreased from 67.4% in 2013 to 47.4% in 2015, which was still far higher than 9.1% in the United States in 2015. We believe that direct financing will dominate China’s financing in the future, thus bringing more opportunities to the securities industry.

Continual Development in Product Variety

With the continuous development and improvement of relevant laws and regulations, regulatory policies and trading channels in the PRC capital markets, the PRC government has been constantly promoting financial innovation and as a result, multi-tiered capital markets have taken shape. In recent years, alternative investments such as collateralized stock repurchase, income certificates, SME private bonds and asset-backed securitization products, and derivatives such as stock index futures, treasury bond futures and stock futures, have been launched, featuring international practice with Chinese characteristics. Diversified investment products provide various and flexible investment vehicles for capital markets participants and at the same time pose challenges to the securities industry in terms of investment and research capabilities. We anticipate that investment and research capabilities will gradually become the core differentiating factor for market players.

Continual Opening-up of the PRC Capital Markets

The rising prominence of the PRC economy in the world will drive the internationalization of the PRC capital markets. The number and volume of IPOs, issuance of dim-sum bonds and cross-border acquisitions by PRC companies have been constantly growing, creating an increasing demand for Renminbi in the international market. The PRC capital markets will be more open with the accelerated RMB internationalization and opening up of capital account.

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The internationalization of Renminbi has driven the rapid development of both QFII and RQFII with increased market size and number of participants. According to the SAFE, from December 30, 2011 to December 31, 2015, the investment quota of QFII had increased at a CAGR of 39.1%, while number of QFII had increased by 155.7% in the same period. The investment quota of RQFII had increased at a CAGR of 153.9%, while number of RQFII had increased by 1,440.0% in the same period. In December 2015, Renminbi was included into the IMF’s SDR basket, representing another milestone in Renminbi’s internationalization. The further opening-up of capital account and the enhancement of Renminbi exchange rate determination mechanism will further encourage cross-border circulation of Renminbi and enhance interaction across financial markets, thus benefiting cross-border businesses.

In November 2014, the CSRC and the SFC launched “the Shanghai-Hong Kong Stock Connect program”. In the meantime, the proposed “Shenzhen-Hong Kong Stock Connect program” is also planned to further strengthen the financial connection between China and Hong Kong. The gap of the market standards and regulations between China and Hong Kong is expected to narrow gradually. In May 2015, the CSRC and the SFC launched the plan of mutually recognizing mutual funds. The mutual recognition of funds between China Mainland and Hong Kong will provide more channels for overseas investors to invest in the PRC capital markets and more overseas products for investors in China.

The restrictions on foreign participation in the PRC capital markets and the securities market have been relaxed in recent years. In October 2012, the CSRC increased the foreign ownership cap in a foreign-invested securities firm from 33.3% to 49%. In August 2013, access restrictions into the PRC securities market were further relaxed for investors based in Hong Kong and Macau whereby the equity proportion of Hong Kong and Macao shareholders in a joint-venture securities firm established in Shanghai, Guangdong province and Shenzhen can be up to 51%. Under this arrangement, an eligible foreign-invested securities firm may obtain full securities business licenses, no longer limiting its business scopes to stocks and bonds underwriting and sponsorship, foreign shares brokerage, bonds brokerage, and securities investment and trading.

THE PRC SECURITIES INDUSTRY

Overview

The PRC securities industry has entered a rapid development phase. According to SAC, as of December 31, 2015, there are 125 registered securities firms in the PRC. As of the same date, the total assets, net assets and net capital of PRC securities firms amounted to RMB6.4 trillion, RMB1.5 trillion and RMB1.3 trillion, respectively. From 2011 to 2015, the operating income in the PRC securities industry had increased from RMB136.0 billion to RMB575.2 billion, with a CAGR of 43.4%; the net income had increased from RMB39.4 billion to RMB244.8 billion, with a CAGR of 57.9%. In 2015, the return on average net assets of the PRC securities industry reached 20.7%.

Competitive Landscape of the PRC Securities Industry

The PRC securities industry is highly competitive. The top five PRC securities firms (in terms of net assets) accounted for only 21.6% of the industry’s aggregate operating income in 2014. In addition, competition between securities firms and other financial institutions also exists in various business segments. For instance, securities firms compete with banks, insurance companies and trust companies in asset management business, and face intense competition from commercial banks in the debt underwriting business. With the recent development of Internet finance, online businesses of securities firms also face competition from non-traditional financial institutions such as internet companies. As the PRC securities license may be granted to financial institutions such as commercial

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banks in the future, this will likely bring new challenges to securities firms but at the same time promote the transformation and innovation of both products and businesses of PRC securities firms.

The following table sets forth the net assets, total assets, net capital, net profit and operating income on an unconsolidated basis¹ of the top 15 PRC securities firms by net assets:

Name	As of December 31, 2014			Year ended December 31, 2014	
	Net assets	Total assets	Net capital	Net profit	Operating income
(RMB in millions, except for percentage)					
CITIC Securities	78,684.4	348,431.4	44,319.3	6,605.9	13,049.3
Haitong Securities	65,022.5	263,412.5	37,110.3	5,678.2	12,192.1
China Merchants Securities	40,558.3	177,240.0	25,448.9	3,742.9	10,126.4
GF Securities	37,668.4	221,395.5	32,664.1	4,318.2	11,169.9
Huatai Securities	37,085.8	200,442.6	19,727.8	3,900.9	9,674.7
Guotai Junan	36,987.7	244,740.8	28,822.0	5,319.2	13,464.2
Guosen Securities	31,687.4	146,474.7	22,357.4	4,480.7	10,915.2
Founder Securities	29,977.3	76,200.2	13,140.5	1,645.7	4,045.7
China Galaxy Securities	28,794.9	165,177.5	25,462.3	3,683.0	10,572.3
Everbright Securities	24,942.2	102,619.1	16,902.8	2,002.6	5,220.0
Shenwan Hongyuan	20,729.9	119,804.1	21,228.5	3,214.0	7,554.0
Orient Securities	18,027.4	98,052.8	11,731.0	2,080.1	4,270.9
Guoyuan Securities	17,152.7	44,668.1	9,265.3	1,318.9	3,144.0
China Securities	16,350.4	114,596.5	15,023.8	3,279.2	8,131.3
Southwest Securities	16,284.5	55,646.5	13,233.0	1,363.4	3,536.1
Total	<u>499,953.8</u>	<u>2,378,902.3</u>	<u>336,437.0</u>	<u>52,632.9</u>	<u>127,066.1</u>

(1) Financial data prepared based on PRC GAAP.

Source: SAC

Securities firms derive revenue primarily from wealth management, investment management, securities sales and trading, and investment banking businesses.

Wealth Management

Securities Brokerage Business

According to Wind Info, the total trading volume for stocks and funds of the PRC securities industry amounted to RMB270.3 trillion in 2015, compared to RMB42.8 trillion in 2011, representing a CAGR of 58.5%. According to SAC, the net operating income from trading of securities on behalf of clients amounted to RMB269.1 billion in 2015, compared to RMB68.9 billion in 2011, representing a CAGR of 40.6%. According to CSDC, as of December 31, 2015, the number of PRC securities accounts amounted to 99.11 million. In recent years, significant changes have taken place in terms of market environment and business development of the PRC securities brokerage business. In November 2012, CSRC permitted securities firms to sell financial products or introduce buyers of financial products. In December 2012, the SAC allowed securities firms to further expand network coverage through setting up capital-light branches. In March 2013, CSRC relaxed restrictions on (i) the qualification of securities firms to establish branches and (ii) the number of branches. In March 2013, CSDC stipulated that securities firms may offer off-site account opening service for their clients. In addition, in November 2014, the Shanghai-Hong Kong Stock Connect program was officially launched, through which investors may invest in designated stocks on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. On February 9, 2015, stock options were officially available on the

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Shanghai Stock Exchange. In April 13, 2015, “one-person-one-account” restriction was lifted. In addition, securities firms have been integrating their own resources in recent years, developing comprehensive prime brokerage services including fund custody, settlement and agency payment service, trading analysis, and liquidity management.

Futures Brokerage Business

Securities firms may engage in futures brokerage business by establishing futures subsidiaries. In recent years, the product categories of futures trading have been increasing continually, including but not limited to stock index futures being introduced in 2010 and financial futures such as treasury bond futures being reintroduced in 2013. By the end of 2015, there were 150 futures companies in China. For the year ended December 31, 2015, the accumulative futures trading volume in China amounted to RMB554.2 trillion, with year-on-year growth of 89.8%.

Securities Financing Business

In March 2010, CSRC officially permitted securities firms to engage in margin financing and securities lending business. Thereafter, the balance of margin financing and securities lending had grown from RMB38.2 billion as of December 31, 2011 to RMB1,174.3 billion as of December 31, 2015, representing a CAGR of 135.5%. The net interest income of the PRC securities industry was RMB59.1 billion in 2015 as compared to RMB5.3 billion in 2012, representing a CAGR of 124.0%. In June 2013, collateralized stock repurchase business was launched on both the Shanghai Stock Exchange and the Shenzhen Stock Exchange. According to Wind Info, the number of collateralized stock repurchase transactions increased from 728 in 2013 to 1,943 in 2014 and further to 2,962 in 2015.

The following table sets forth the summary of the top ten PRC securities firms in collateralized stock repurchase business in China in 2015:

	Haitong Securities	CITIC Securities	Huatai Securities	Guotai Junan	Zhongtai Securities	Guosen Securities	GF Securities	Huarong Securities	Orient Securities	China Merchants Securities
	(RMB in billions, except percentages)									
Transaction amount to be repurchased on Shanghai Stock Exchange and Shenzhen Stock Exchange (market value)	57.5	52.9	38.9	33.6	27.0	26.3	25.8	25.7	25.0	22.9
Market share	8.1%	7.5%	5.5%	4.7%	3.8%	3.7%	3.6%	3.6%	3.5%	3.2%

Source: Shanghai Stock Exchange and Shenzhen Stock Exchange

Investment Management

Securities Firm Asset Management

The asset management business of PRC securities firms has developed rapidly. In 2015, the operating income from the securities firm asset management business of the PRC securities industry was RMB27.5 billion as compared to RMB2.1 billion in 2011, representing a CAGR of 89.9%. The total AUM of PRC securities firms increased from RMB281.9 billion in 2011 to RMB11.9 trillion as of December 31, 2015, representing a CAGR of 154.8%. In addition, asset-backed securitization products in the PRC also have significant growth opportunities. From January 1, 2012 to December 31, 2015, the total issuance size of asset-backed securitization products in the inter-bank bond markets and stock exchanges in the PRC amounted to RMB658.4 billion.

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The following table sets forth the total AUM and corresponding operating income from securities firm asset management business in the PRC securities industry from 2011 to 2015:

	As of December 31/Year ended December 31,				
	2011	2012	2013	2014	2015
AUM (RMB in billions)	281.9	1,890.0	5,200.0	7,970.0	11,880.0
Operating income of securities firm asset management business (RMB in millions)	2,113.0	2,676.0	7,030.0	12,435.0	27,488.0

Source: SAC

Mutual Fund Management

Supported by a favorable regulatory environment and accumulation of personal wealth, the mutual funds market in the PRC has experienced significant growth in recent years. According to the Asset Management Association of China, the total AUM of mutual funds managed by the fund management firms in the PRC had grown from RMB2.2 trillion as of December 31, 2011 to RMB8.4 trillion as of December 31, 2015, representing a CAGR of 39.9%. As of December 31, 2015, AUM of fund management firms and segregated accounts of their subsidiaries amounted to RMB12.6 trillion. In February 2013, the CSRC issued licenses to allow securities firms to raise and manage mutual funds. Securities firms are expected to gain a larger market share in asset management business through offering diversified products.

Private Equity Management

The private equity management business of PRC securities firms has developed rapidly in recent years. In July 2011, CSRC issued guidelines to permit private equity subsidiaries of PRC securities firms to raise funds through private placements and engage in angel investment, venture capital, pre-IPO and M&A investments. The SAC further broadened the private equity investment scope and relaxed the regulations on the business in January 2014. We believe that this trend will drive the transformation of the private equity business of securities firms from a pure principal investment model to an investment management model. In recent years, procedures and requirements for the registration and filing of private equity funds have been clarified and tightened. The private equity funds industry in the PRC has hence entered a stage of standardization and growth. According to the statistics of the SAC and the Research Institute of ChinaVenture, the registered capital of private equity subsidiaries of PRC securities firms had grown from RMB35.5 billion as of December 31, 2012 to RMB43.4 billion as of December 31, 2014, representing a CAGR of 10.5%. According to the statistics of the Research Institute of ChinaVenture, in 2014, 14 private equity subsidiaries of PRC securities firms founded 20 Renminbi private equity funds, with a target size of over RMB17.7 billion.

Securities Sales and Trading

Proprietary Trading

In 2015, the investment income (including fair value changes) of the PRC securities industry was RMB141.4 billion as compared to RMB5.0 billion in 2011, representing a CAGR of 130.9%. In November 2012, CSRC significantly broadened the investment scope for the proprietary trading business of securities firms to include securities on the exchanges, OTC market and domestic interbank market and securities traded over the counter of PRC financial institutions. With the launch of stock index futures, treasury bond futures and stock options, the trading strategies and investment instruments available to PRC securities firms have diversified over time. As a result, their trading and liquidity risks management capabilities are also improving. In May 2014, the CSRC promulgated guidelines to encourage the development of FICC innovative business. In August 2014, the SAC

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promulgated provisions to permit securities firms to engage in OTC businesses and provide market-making service for non-standardized financial products. In January 2015, the CSRC promulgated regulations to allow PRC securities firms to engage in the trading and market-making of stock options.

Market-making Services

With more relaxed regulations and specified implementation details, PRC securities firms have engaged in market-making business for ETFs, the NEEQ and stock options in recent years. In May 2015, the CSRC specified the requirements and obligations for securities firms to engage in liquidity service businesses, thus introducing and further regulating the market-making system for the PRC ETF market. In June 2014, the Administrative Provisions on Market-making Business of Market Makers of the National Equities Exchange and Quotations (Trial Implementation) (《全國中小企業股份轉讓系統做市商做市業務管理規定（試行）》) was officially promulgated and implemented, which formed the basic framework of the market-making and share transfer businesses for the NEEQ. A total of 82 securities firms were qualified as market makers on the NEEQ as of December 31, 2015. In February 2015, SH50ETF became listed on the Shanghai Stock Exchange. As of December 31, 2015, a total of eight securities firms were qualified as the primary market makers of SH50ETF Options on the Shanghai Stock Exchange.

Alternative Investment

In April 2011, the CSRC promulgated regulations to allow PRC securities firms to establish subsidiaries to invest in financial products that are beyond the permitted scope of their securities investment and trading portfolios. These subsidiaries can engage in alternative investments to provide a new source of revenue for the related PRC securities firms. This development enabled securities firms to invest in private placements, non-standardized fixed-income products and structured products, thus forming a diversified business model covering various asset classes and markets with different investment strategies.

Investment Banking

In 2015, the operating income from underwriting and sponsorship as well as financial advisory business in the PRC securities industry was RMB39.4 billion and RMB13.8 billion, respectively, totaling RMB53.1 billion as compared to RMB24.1 billion in 2011, representing a CAGR of 21.8%. The CSRC has continually promoted the reform of the IPO regime. In 2014, the regulatory authorities introduced a set of favorable policies to promote the development of M&A business such as increasing the allowed proportion of transaction financing from no more than 25% of total consideration to no more than 100%, increasing transparency through disclosing review comments on M&As and reorganization transactions and improvising favorable tax policies on such transactions, which lowered relevant taxes and transactional costs. In 2014, the NEEQ saw continuous innovation in trading system, experienced rapid expansion in scale, and introduced various direct financing instruments, such as preferred shares and exchangeable bonds.

Investment banking is one of the major businesses in which foreign-invested securities firms are permitted to engage. As of July 2015, there were 11 foreign-invested PRC securities firms⁽¹⁾, four of which only engages in underwriting and sponsorship businesses for stocks (including RMB-denominated ordinary shares and foreign shares) and bonds (including government bonds and corporate bonds).

Note:

⁽¹⁾ Foreign investors of two of the 11 foreign-invested securities firms are controlled by entities located in the PRC, and are not considered as international investors for the purpose of this document.

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Equity Underwriting and Sponsorship

The total amount of equity offerings in the PRC amounted to RMB1,540.2 billion in 2015. Equity offerings in the PRC are affected by government regulatory policies and stock market volatility. The following table sets forth the amount of capital raised from equity offerings in the PRC during the indicated periods:

	Year ended December 31,				
	2011	2012	2013	2014	2015
	(RMB in billions)				
IPOs	282.4	103.4	0.0	66.9	157.8
Follow-on equity offerings	485.9	390.2	427.8	752.3	1,382.4
Total	768.3	493.7	427.8	819.2	1,540.2

Source: Shanghai Stock Exchange and Shenzhen Stock Exchange, follow-on equity offerings include follow-on offerings and rights issues. The offering expense has not been deducted.

In recent years, the PRC government has been continually and actively conducting research and creating conditions for the implementation of a registration-based IPO regime. The timing of its implementation remains unclear. If implemented, we expect it will stimulate the A share market. Meanwhile, securities firms are required to meet higher standards of professional expertise and services. Medium- and large-sized securities firms with stronger research, pricing and sales capabilities will benefit most from this reform.

Debt Underwriting

Capital raised from bond offerings underwritten by PRC securities firms increased from RMB949.0 billion in 2011 to RMB3,095.3 billion in 2015, representing a CAGR of 34.4%, among which the total amount of corporate bonds and enterprise bonds underwritten increased from RMB371.5 billion in 2011 to RMB1,355.6 billion in 2015, representing a CAGR of 38.2%. The following table sets forth the amount of capital raised from bond offerings in China underwritten by PRC securities firms during the periods indicated.

	Year ended December 31,					CAGR of 2011 to 2015 (%)
	2011	2012	2013	2014	2015	
	(RMB in billions)					
Short-term financing bills and medium-term notes	65.2	67.9	63.3	106.7	187.1	30.1
Corporate bonds	129.1	262.5	171.2	141.1	1,015.7	67.5
Enterprise bonds	242.3	649.9	471.0	694.1	339.9	8.8
Financial bonds	366.2	462.7	221.6	497.9	692.4	17.3
Convertible bonds	41.3	16.4	54.5	32.1	9.8	(30.2)
Bonds issued by government backed agencies and local government bonds	100.0	150.0	150.0	151.6	192.2	17.7
Asset-backed securities	1.3	24.4	23.2	309.8	533.5	351.9
Private placement notes	3.5	7.1	17.1	64.1	100.8	131.6
Others	0.0	0.1	0.6	7.0	23.9	—
Total	949.0	1,641.1	1,172.5	2,004.4	3,095.3	34.4

Source: Wind Info.

Financial Advisory

The transformation of China’s industrial structures have raised enterprises’ demand for M&As, driving rapid growth of China’s M&A and restructuring market. According to Dealogic, the total value of M&A transactions in China for the year ended December 31, 2015 amounted to US\$769.6 billion, representing a significant increase as compared with US\$241.3 billion for the full year of 2011. The total value of cross-border M&A transactions for the year ended December 31, 2015 was US\$152.8 billion as compared with US\$101.9 billion for the full year of 2011.

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In recent years, the CSRC has promulgated various regulations to simplify the approval process for M&As and restructuring transactions, encourage the participation of M&A funds and industrial investment funds in such transactions involving listed companies, improve pricing mechanism for equity offerings in acquisition financing and expanded the use of innovative financing instruments in these transactions. The accelerated implementation of “One Belt and One Road” framework also brings new opportunities for large state-owned enterprises to carry out overseas M&As by implementing the “Go Global” strategy. We believe that these developments will generate substantial opportunities for financial advisory business in the PRC M&A and restructuring market in the future.

Other Emerging Businesses

As regulatory restrictions gradually relaxed in recent years, the PRC securities industry began to offer a greater variety of innovative products and services to clients. Securities firms launched new businesses such as repurchase agreements, dealer-quoted bond repurchase agreements, structured notes and asset-backed securitization products to meet clients’ needs for trading, investment, financing and liquidity. In August 2014, the SAC permitted the securities firms to issue, sell or transfer a variety of products on the OTC market, including asset management schemes and structured notes that are set up or underwritten in the form of non-public offering by securities firms and their subsidiaries, and products issued by banks, insurance companies or trust companies. We believe that these emerging securities businesses have strong growth potential in the future.

DEVELOPMENT TRENDS OF THE PRC SECURITIES INDUSTRY

Diversification of the securities industry driven by regulatory reform and innovation

The PRC securities industry is undergoing accelerated reforms with innovations, generating more business opportunities for securities firms in products and services through regulatory innovation, expanding the service scope of the securities industry as well as penetrating into other traditional financial industries.

In May 2014, the CSRC further promoted the innovative development of securities businesses in three aspects: building modern investment banks, supporting business and product innovations, and promoting regulatory reform. In terms of asset management business, the investment scope and use of funds of the CAM schemes are gradually broadened. In terms of brokerage business, securities firms are able to sell financial products or introduce financial product buyers, conduct market expansion through off-site account opening services and “one-person-multiple-account” policy, and achieve the interconnection of Shanghai and Hong Kong stock markets through Shanghai-Hong Kong Stock Connect. In terms of investment banking business, the CSRC further improved the offering and trading management mechanism for corporate bonds in January 2015 and implemented a new regime for IPOs in January 2016 that introduced a number of initiatives including lifting the requirement with respect to deposit of funds in the subscription of IPO shares. It is now creating conditions for the implementation of a registration-based IPO regime and simplifying the application procedures for M&As involving listed companies.

In addition, innovative financial products are continually being introduced in the PRC securities industry, such as collateralized stock repurchase, income certificates, private placement notes for SMEs and asset-backed securitization products. Securities firms’ engagement in credit equivalent business and innovative corporate financing business has increased significantly and the securities industry has been increasingly penetrating into other traditional financial industries. Supported by the favorable policies of the CSRC, securities firms are expanding their balance sheets, trying to increase their capital through IPOs and follow-on offerings, and increase their business scale by issuing debt instruments. We believe that such regulatory initiatives will effectively improve the profitability of the

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securities firms and expand their sources of funding, and ultimately accelerate the development of the PRC securities industry.

Rapid growth of wealth management and asset management business driven by growth of wealth

Driven by China’s strong economic growth over the past 20 years, the continuous growth of household wealth generates significant demand for wealth management and other financial services. The amount of Renminbi and foreign currency deposits by PRC residents grew from RMB35.2 trillion as of December 31, 2011 to RMB55.2 trillion as of December 31, 2015, representing a CAGR of 11.9%. The demand from the residents, especially the affluent individuals, for diversified asset allocation, has become an important driving force for the wealth management business of PRC securities firms.

Capitalizing on the huge client base of the wealth management business, cross-selling capabilities and professional capabilities in the securities market, the asset management business of PRC securities firms has achieved steady growth in the past five years with substantial development and innovation in asset management products and mutual fund products. The CSRC has also taken a series of measures to encourage securities firms to promote products and services innovation and implement diversified development strategies and differentiated pricing structures. We believe that these measures will diversify the investment variety of the asset management business of securities firms and drive the innovation and development of their asset management business.

Continual development of professional services capacity driven by the growing participation of institutional investors

At present, retail investors have been the primary participants in the PRC stock market. However, with the reform and development of the PRC capital markets, the participation of institutional investors has been gradually increasing in recent years. The number of A share accounts held by institutional investors increased from 117,316 as of December 31, 2011 to 171,689 as of December 31, 2015, representing a CAGR of 10.0%. The institutional investors include but not limited to securities firms, securities investment funds, segregated wealth management accounts, social security funds, corporate annuity, QFII, RQFII, insurance companies and trusts. Compared with retail investors, institutional investors have stronger demand for professional services, such as value-added services and customized structured products.

THE COMPETITIVE FACTORS OF THE PRC SECURITIES INDUSTRY IN THE FUTURE

We believe that securities firms with the following capabilities will have competitive advantages during the transformation of the PRC securities industry:

- **Investment and research capabilities.** As the securities industry continually expands its investment scope and diversifies its investment portfolios, the investment and research capabilities for conducting in-depth research on various target assets would be the core competitiveness for securities firms to form accurate judgment, based on which they can make acute investment decisions tailored to their own and the clients’ needs for securities sales and trading, wealth management and asset management.
- **High-end wealth management capabilities.** In recent years, with the rapid growth of the wealth of PRC residents, demands for wealth management products have been rising. Although the current wealth management business has satisfied the clients’ basic needs to a certain degree, there is still significant growth potential for wealth management business.

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In addition, HNW individuals and institutional investors will further drive the demands for value-added services and customized structured products.

- **Financial innovation capabilities based on clients’ needs.** With the increasing participation of institutional investors in the PRC capital markets, securities firms need to offer innovative and competitive products and services to meet the demands for customized financial services. In addition to standard products, securities firms have developed a number of innovative products, such as collateralized stock repurchase, repurchase agreement transactions, income certificates, private placement notes for SMEs, and asset-backed securitization products to meet clients’ diversified demands. In addition, strong business collaboration and cross-selling capabilities are essential for securities firms to remain competitive. They will be able to expand market share and increase client loyalty with their comprehensive understanding of clients’ needs and provision of “one-stop” products and services accordingly.
- **Comprehensive risk management capacities, and prudent and effective risk control system.** As the development of innovative business accelerates, securities firms shall establish a sound risk management system, improve its risk management capabilities and achieve dynamic balance between innovative development and risk management. These measures will lay a solid foundation for innovation as well as effectively coping with the increasing challenges in risk management, including liquidity risk, credit risk, market risk, operational risk, compliance risk and legal risk. With the rapid development of capital-based intermediary businesses including margin financing and securities lending as well as collateralized stock repurchase, the securities firms are transforming from pure channel service providers to capital service providers. As such, they are also shifting from a compliance-centric system to a comprehensive risk management system. As a result, it is expected that the comprehensive risk management capacities as well as prudent and effective risk control system will be the foundation for competitiveness for securities firms in the future.
- **Service capabilities of Internet finance.** The rapid development of Internet finance promotes the transformation of the business model for securities firms. Securities firms are actively developing a number of Internet based services on their own online platforms, such as online account opening, online trading, wealth management products sales and financing, breaking through the physical constraint of branches to access more clients as well as lower the operating cost. These developments will improve client service capabilities, increase operating efficiency and promote product innovations for securities firms.
- **International expansion and development capabilities.** As the PRC capital markets continue to develop, securities firms are expected to conduct international business through establishing overseas subsidiaries by organic growth as well as acquisitions, leveraging domestic and overseas resources to achieve synergistic growth. Currently, there are a lot of potential opportunities in relation to internationalization of the PRC securities industry: (i) an increasing number of PRC enterprises are seeking overseas financing and M&A opportunities; (ii) QDII businesses have developed rapidly over the years; and (iii) many PRC enterprises have become listed overseas, offering substantial business opportunities for PRC securities firms to “Go Global” as well. Well-established capabilities for global expansion and development will be critical in competing in the increasingly internationalized capital markets.

REGULATORY ENVIRONMENT

REGULATORY ENVIRONMENT OF THE PRC

Overview

The Company is a securities firm in the PRC and is primarily engaged in the business of securities and futures. The Company is subject to the regulations of the CSRC and other authorities. The securities and futures business of the Company is subject to the applicable regulations of the PRC in the areas of industry entry, business regulation, corporate governance and risk control. Our operations shall also comply with other general regulations of the PRC, including laws, regulations, rules and other regulatory documents in respect of foreign exchange control, taxation and anti-money laundering.

Major Regulatory Authorities and Self-Regulatory Organizations

The operations of the Company are mainly supervised and regulated by the following authorities in the PRC:

CSRC

The CSRC is the major regulatory authority in the securities and futures industry, which is responsible for the unified supervision and management of the securities and futures markets of the PRC and for maintaining the market order thereof, and to secure their lawful operations in accordance with the laws, regulations and within the authorization of the State Council. According to the Securities Law (amended on August 31, 2014 with immediate effect) and the Administrative Regulations on Futures Trading (amended on February 6, 2016) (《期貨交易管理條例》), the main duties of the CSRC include: to formulate the regulations and rules in relation to the supervision and regulation of the securities and futures markets and to exercise the rights of examination, approval or verification according to law; to supervise and regulate the issuance, listing, trading, registration, deposit and settlement of securities and other related activities and the listing, trading, settlement and delivery of futures and related activities; to supervise and regulate the securities activities of securities issuers, listed companies, securities firms, securities investment fund management companies, securities service organizations, stock exchanges and securities registration and settlement organizations, as well as futures activities of market participants, including futures exchanges, futures companies, other futures business institutions, non-futures companies clearing member, futures margin security depository management companies, futures margin depository banks, settlement houses and so forth; to legally determine and supervise the qualification standards and codes of conduct of participants engaged in securities and futures businesses; to legally supervise the disclosure of information in relation to the issuance, listing and trading of securities and information on futures trading; to legally guide and supervise the activities of the SAC and the China Futures Association (“CFA”); to investigate activities in violation of laws and administrative regulations in relation to the securities and futures markets; to conduct external and international cooperative transactions in relation to the supervision and management of the securities and futures industries; and to perform other duties stipulated by the relevant laws and administrative regulations.

Stock Exchange

According to the Securities Law, a stock exchange is a self-regulatory legal entity, which provides venues and facilities for the centralized trading of securities, and organizes and supervises the trading of securities. Shanghai Stock Exchange and Shenzhen Stock Exchange are the two major stock exchanges in the PRC.

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Futures Exchange

Under the Administrative Regulations on Futures Trading (《期貨交易管理條例》), a futures exchange is a non-profit self-regulatory legal entity, which provides venues and facilities for the centralized trading of futures and organizes and supervises the trading of futures. The main duties of a futures exchange include: to provide venues, facilities and services for trading; to design futures trading contracts and to arrange the listing of futures trading contracts; to organize and supervise the trading, clearing and settlement of futures; to provide centralized performance guarantees for futures trading; to supervise and manage its members in accordance with its articles of association and trading rules; and to perform other duties as specified by the CSRC.

SAC

According to the relevant provisions of the Securities Law, the SAC is a self-regulatory organization of the securities industry and is a non-profit public legal entity. Securities firms shall join the SAC. The main duties of the SAC include: to educate and advise its members to comply with the securities laws and administrative rules; to protect the lawful rights and interests of its members and forward their proposals and requests to the securities supervision and management authorities; to collect and compile information of securities activities for the members’ reference; to formulate rules of the SAC with which the members shall comply, and to organize training programs and seminars for futures practitioners and its members; to mediate disputes arising from securities business between its members or between members and their clients; to organize for its members the study of development, operation and other matters of the securities industry; to monitor and investigate the conduct of members and take disciplinary actions against them for violation of laws, administrative rules or its articles of association in accordance with relevant provisions; and to perform other duties stipulated in the articles of association of the SAC.

CFA

Pursuant to the relevant provisions of the Administration Regulations on Futures Trading (《期貨交易管理條例》), the CFA is a self-regulatory organization of the futures industry and is a non-profit public legal entity. Futures companies and other organizations specializing in the business of futures shall join the CFA. The main duties of the CFA include: to educate and advise its members to comply with the laws, regulations and policies in relation to futures; to formulate self-regulatory rules binding on its members and to supervise and examine the conduct of its members and take disciplinary actions against the violation of its articles of association or self-regulatory rules in accordance with relevant provisions; to accredit, manage and de-register the qualifications of futures practitioners; to deal with complaints of clients and in relation to the futures business and to mediate disputes between members or between members and their clients; to protect the lawful rights and interests of its members and forward their proposals and requests to the futures supervision and management authorities of the State Council; to organize training and seminars for futures practitioners; to organize for its members the study of development, operation and other matters of the futures industry; and to perform other duties stipulated in the articles of association of the CFA.

Asset Management Association of China (AMAC)

Pursuant to the relevant provisions of the Law of the People’s Republic of China on Securities Investment Fund (《中華人民共和國證券投資基金法》) (the “**Securities Investment Fund Law**”) (amended on April 24, 2015 with immediate effect), AMAC is a self-regulatory organization of the securities

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investment fund industry and is a public legal entity. Fund managers and fund custodians shall join AMAC, and fund service organizations may join AMAC. The main duties of AMAC include: to educate and advise its members to comply with the laws and administrative rules governing securities investments and to protect the lawful rights and interests of the investors; to protect the lawful rights and interests of its members and to submit their proposals and requests; to formulate and implement self-regulatory rules, to supervise and investigate the practices of its members and practitioners, and to take disciplinary actions against the violation of the self-regulatory rules and its articles of association in accordance with relevant provisions; to formulate practice standards and business rules and to organize the qualification examinations, qualification management and professional training for fund practitioners; to provide membership service, organize seminars, promote innovation and launch propaganda and investor education activities in the securities industry; to mediate disputes arising from fund business between members or between members and their clients; to handle the registration and filing of non-publicly offered funds in accordance with the law; and to perform other duties stipulated in its articles of association.

Other Industry Organizations

Other major industry organizations include PBOC, SAFE, CSDC, China Securities Investor Protection Fund Corporation Limited (中國證券投資者保護基金有限責任公司), China Futures Margin Monitoring Center Co., Ltd. (中國期貨保證金監控中心有限責任公司), China Financial Futures Exchange (中國金融期貨交易所), the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會), China Insurance Regulatory Commission (CIRC) (中國保險監督管理委員會), National Equities Exchange and Quotations Company Limited (全國中小企業股份轉讓系統有限公司) and China Securities Finance Corporation (中國證券金融股份有限公司).

Industry Entry Requirements

Industry Entry Requirements of Securities Firms

Establishment

The Securities Law and the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》) (effective from June 1, 2008 and amended on July 29, 2014), explicitly set out the scope of business, industry entry standards, organizations, business rules of securities firms and other requirements for the operations of securities firms. The establishment of a securities firm shall be approved by the CSRC and the securities firm shall obtain a business license by meeting the following conditions:

- its articles of association shall comply with the laws and administrative regulations;
- its major shareholders shall have sustainable profitability, good reputation and no record of major violation of laws or regulations in last three years, and shall have net assets of not less than RMB200 million;
- it shall have the necessary registered capital required by the Securities Law; for a securities firm operating securities brokerage, securities investment consulting and financial advisory business in relation to securities trading and securities investment, the minimum registered capital shall be RMB50 million; for companies operating one of the areas of securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall be RMB100 million; for companies operating two or more of the areas of securities

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underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall be RMB500 million. The registered capital of a securities firm shall be paid-in capital;

- its directors, supervisors and senior management shall have the required qualifications, while other personnel involved in the securities business shall possess proper professional qualifications, and no less than three of the senior officers shall have served as senior officers for no less than two years in the securities industry; and
- it shall have effective risk management and internal control systems; it shall have proper premises and facilities for operation; and it shall fulfill other conditions stipulated by laws, administrative rules and the CSRC.

According to the provisions of the Judging Criteria and Guidelines on Controlling Relationships of Securities Firms (《關於證券公司控制關係的認定標準及相關指導意見》) promulgated by the CSRC in March 2008, the same unit or individual, or units or individuals under *de facto* common control of the same unit or individual, shall not hold equity interests in more than two securities firms and shall not hold controlling interests in more than one securities firm. Any entity or individual in companies that satisfy any of the following conditions shall not be included in the number of equity interests or controlling interests in securities firms:

- it holds less than 5% (excluding 5%) of the shares of listed securities firms through securities trading on any stock exchange;
- it controls a securities firm via investment relationship, agreement(s) or other arrangements, while such securities firm holds equity or controlling interests in other securities firm in accordance with law;
- it is a subsidiary established by a securities firm in accordance with law upon approval of the CSRC and engages in securities business; and
- other circumstances as identified by the CSRC.

The Rules for the Formation of Foreign-Invested Securities Firms (《外資參股證券公司設立規則》) promulgated by the CSRC (as amended on October 11, 2012 with immediate effect) (the “Foreign-Invested Securities Firms Rules”) stipulates the conditions and procedures for the formation of foreign-invested securities firms. The listed domestically funded securities firms with foreign investment are subject to the following shareholding ratios:

- foreign investors who lawfully hold 5% or more of the shares in a listed domestically-funded securities firm through securities trading on a stock exchange or who jointly hold 5% or more of the shares in a listed domestically-funded securities firm with others by agreement or other arrangements shall be subject to the approval of the CSRC;
- the holdings (including direct holdings and/or indirect control in the equity interest) of an individual foreign investor in a listed domestically-funded securities firm shall not exceed 20%;
- the aggregate of holdings (including direct holdings and/or indirect control in the equity interest) of a listed domestically funded securities firm by all foreign investors shall not exceed 25%.

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A foreign-invested securities firm shall fulfill the following conditions:

- it shall have the registered capital as required by the Securities Law;
- its shareholders shall have the qualification as prescribed in the Foreign-Invested Securities Firms Rules, and their shareholdings and capital contributions shall comply with the relevant provisions;
- as required by the CSRC, it shall have not less than 30 persons who are qualified to participate in securities business, and qualified accountants, legal counsels and IT technicians;
- it shall have sound internal management and risk control systems, and separate organizational, personnel, information and operations management systems for its underwriting, brokerage and securities investment and trading business. It shall also have an appropriate internal control technology system;
- it shall have the required premises and qualified facilities for operation; and
- other prudent requirements by the CSRC.

In addition, according to the provisions of the Guidelines on Administrative Approval for Securities Firms No. 10—Increase and Change in Equity Interest of Securities Firms (《證券公司行政許可審核工作指引第10號—證券公司增資擴股和股權變更》) (promulgated on August 27, 2015), if an enterprise that is directly or indirectly owned by a foreign investor invests in a securities firm, the equity interest of the foreign investor in the securities firm, based on the effective equity holding, shall not be more than 5%. The indirect equity interests of a foreign investor in a securities firm shall be exempted from such restriction if all the following conditions are satisfied:

- the foreign investor indirectly holds the equity interests in the securities firm through a listed company;
- the largest shareholder, controlling shareholder or *de facto* controller of the listed company is a Chinese investor;
- if there is a change in the equity structure of the listed company in the future, which resulted in the indirect shareholding of a foreign investor in the securities firm through the listed company in violation of the opening-up policy of China, the matter shall be rectified within a specified period; the relevant equity interest shall not carry a voting interest if such matter is not rectified in the due time; and
- the foreign investor shall be prohibited from establishing any joint ventures securities firm with a domestic securities firm or making strategic investments in a listed securities firm as long as the foreign investor indirectly owns not less than 5% of the equity interests in one or more domestic securities firms.

Business scope

According to the provisions of the Securities Law, a securities firm can conduct any of or all the following businesses with approval from the CSRC: securities brokerage; securities investment consultation; financial advisory in relation to securities trading and securities investment; securities underwriting and sponsorship; proprietary securities trading; securities asset management; and other securities business.

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According to the provisions of the Regulations on the Examination and Approval of the Scope of Business of Securities Firms (Provisional) (《證券公司業務範圍審批暫行規定》) (effective from December 1, 2008), securities firms under common control of an entity or individual or securities firms with control relationship shall not engage in the same business, unless effective measures are in place for division of operation regions or client bases and there is no competition between the companies. Unless otherwise specified by the CSRC, the scope of business of a securities firm shall be approved by the CSRC upon its establishment in accordance with the statutory requirements, and no more than four types of new businesses shall be approved. A securities firm shall obtain approval from the CSRC for any change in its scope of business, and no more than two additional types of business can be applied for at once. Subject to approval by the CSRC, a securities firm may operate businesses not prohibited by the Securities Law, the Regulations on Supervision and Administration of Securities Firms and the rules and regulations of the CSRC.

Material changes

According to the provisions of the Securities Law and the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》), a securities firm shall obtain approval from the CSRC if it has any of the following acts:

- establishment, acquisition or de-registration of a branch of a securities firm;
- change of the scope of business or registered capital;
- change of any shareholder(s) holding more than 5% of the shares or *de facto* controller(s);
- change of important provisions of the Articles of Association of the company;
- merger, division, change of incorporation, cessation, dissolution and bankruptcy; or
- the establishment, acquisition or equity participation in securities institutions overseas by securities firms.

The CSRC has gradually authorized its local branches to approve some applications for material changes by securities firms. In October 2012, according to the Decision of the State Council in Relation to the Cancellation and Adjustment of the Sixth Group of Items Requiring Administrative Approval (《國務院關於第六批取消和調整行政審批項目的決定》) (effective from September 23, 2012), the approval authority of the following material changes of securities firms was formally delegated to local branches of the CSRC: change of important provisions of the articles of association of the company; establishment, acquisition or de-registration of a branch; change of registered capital, including the approval of the qualification of shareholder(s) or the *de facto* controller(s), or the change of *de facto* controller(s), controlling shareholder(s) or shareholder(s) with the largest shareholding of an unlisted securities firm in connection with an increase in its registered capital, and approval of a reduction of registered capital by an unlisted securities firm; change of shareholder(s) with more than 5% of shareholdings and *de facto* controller(s) of an unlisted securities firm; and increase and decrease in the business of securities brokerage, securities investment consultation and financial advisory in relation to securities trading and securities investment, proprietary securities trading, securities asset management and securities underwriting.

According to the provisions of the Decision of the State Council on Cancellation and Delegation of Certain Administrative Examination and Approval Items (《國務院關於取消和下放一批行政審批項目的決定》) (issued on January 28, 2014 with immediate effect), the

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CSRC cancelled the approval requirements for the following three matters: the borrowing of subordinated debts by securities firms, annual foreign exchange risk exposure of licensed overseas futures companies, and special investment of securities firms.

According to the provisions of the Decision of the State Council on Cancellation and Adjustment of Certain Administrative Examination and Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued on October 23, 2014 with immediate effect, the CSRC cancelled the approval requirements for the following five matters: reorganization of securities firms and extension of the reorganization period, administration measures of secondary offering mutual funds, business rules of secondary offering, rules and regulations of margin financing and securities lending business of securities firms, the borrowing, issuance, payment and settlement of subordinated debts by institutions engaging in securities-related businesses.

According to the Notification No. 8 [2015] issued by the CSRC on April 10, 2015, 155 items previously subject to filing procedures were cancelled or adjusted, which include: the directors, supervisors, senior management or employees of a securities firm holding or controlling less than 5% of equity interest in the securities firm pursuant to a mid- or long-term incentive scheme; the change of shareholders holding less than 5% of equity interest in the securities firm; a delay in registration of establishment or acquisition of branches by the securities firm, etc.

Establishment of subsidiaries, branches and securities business units

According to the provisions of the Regulations on Formation of Subsidiaries of Securities Firms (Provisional) (《證券公司設立子公司試行規定》) (amended on October 11, 2012 with immediate effect), subject to the approval of the CSRC, securities firms may establish wholly-owned subsidiaries and invest jointly in the establishment of subsidiaries with other investors who meet the requirements for shareholders of securities firms stipulated in the Securities Law. However, a securities firm and its subsidiaries or subsidiaries under the control of the same securities firm, shall not operate similar businesses having conflicts of interest or which are in competition.

Pursuant to the provisions of the Regulatory Requirements on Branches of Securities Firms (《證券公司分支機構監管規定》) (effective from March 15, 2013), branches of a securities firm refer to branches and securities business units established by such securities firm in the PRC for business operation. The establishment, acquisition and de-registration of branches of securities firms are subject to the approval from securities regulatory authorities under the CSRC. Securities firms shall meet the following requirements in order to establish or acquire branches: having a sound governance structure and effective internal management and being able to control the risks of their existing branches and the branches to be established; having risk control indicators in compliance with relevant rules for the previous year and those indicators remaining in compliance after the additional branches are established; having not received any administrative or criminal penalties for any material breach of rules or regulations for the past two years and having not had any material regulatory measures imposed on them for the previous year, and being not subject to any investigation for any branch-related activities based on any alleged material breach of rules or regulations; having a secure and stable information technology system and no material information technology incident having occurred during the previous year; and existing branches are under effective management.

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Entry Requirements for Futures Companies

Establishment

According to the Administrative Regulations on Futures Trading and the Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) (effective from October 29, 2014), the establishment of futures companies shall be approved by the CSRC subject to the following conditions:

- the minimum registered capital shall be RMB30 million;
- directors, supervisors and senior management shall be qualified for their positions, while practitioners shall have futures practice qualifications;
- the number of staff with futures practice qualifications shall not be less than 15, and the number of senior management staff with practice qualifications shall not be less than three;
- the articles of association of the company shall comply with the requirements of laws and administrative regulations;
- major shareholders and the *de facto* controller shall have sustainable profitability, good reputation, and shall not have a record of material violation of laws or regulations in the past three years;
- premises and operation facilities shall be in compliance with requirements;
- sound risk management and internal control systems; and
- other conditions as stipulated by the CSRC.

According to the Provisions on Issues Relating to the Regulation of Controlling Interests and Equity Interests in Futures Companies (《關於規範控股、參股期貨公司有關問題的規定》) (effective from June 1, 2008), an entity shall not hold controlling interests and equity interests in more than two futures companies and shall not hold controlling interests in more than one futures company.

Material changes

According to the provisions of the Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), approval of the CSRC shall be obtained for changes of shareholdings in any of the following situations: change of controlling shareholders or the largest shareholder; shareholding of an individual shareholder or the aggregate shareholding of associated shareholders is increased to 100%; shareholding of an individual shareholder or the aggregate shareholding of associated shareholders, involving foreign shareholders, is increased to 5% or above. Save as aforesaid, an approval from the local branch office of the CSRC where the company is located shall be obtained if the shareholding of an individual shareholder or the aggregate shareholding of associated shareholders in the futures company is to be increased to 5% or above.

In accordance with the State Council Decisions on the Cancellation and Adjustment of Various Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (issued on October 23, 2014 with immediate effect), the establishment of domestic branches by futures companies is no longer subject to administrative approval of a local branch of the CSRC.

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Regulation of Operations of Securities Firms

The Company and its subsidiaries primarily engage in securities and related business, including but not limited to securities brokerage, margin financing and securities lending, securities investment consulting, financial advisory business relating to securities trading and securities investment activities, proprietary securities trading, distribution of financial products of securities investment funds, intermediary business for futures companies, distribution of financial products, stock options market-making, securities underwriting and sponsorship, securities asset management, publicly-raised securities investment fund management, private equity investment, and alternative investment.

Securities Brokerage

According to the provisions of the Regulations on Supervision and Administration of Securities Firms and the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》) (effective from May 1, 2010), a securities firm engaging in securities brokerage business shall be in compliance with the following regulations:

- it shall have a sound management system for securities brokerage business;
- it shall objectively indicate its business qualifications, service responsibility, scope and other information of its securities brokerage business;
- it shall have a sound client management and service system for the securities brokerage business and strengthen the education of investors and protect the legitimate rights and interests of clients;
- it shall have a sound management system and rational performance appraisal system for securities brokers to regulate their behavior;
- it shall have a sound management system for its securities business department to ensure law-abiding, stable and safe operation;
- it shall establish and manage the information systems for client account management, client deposits, agent trading, agent clearing and settlement, securities depository, transaction risk monitoring, etc. and shall establish a central storage for the above business data;
- if the securities business unit or a practitioner of a securities firm violates laws, administrative regulations, provisions stipulated by regulatory agencies and other administrative department self-regulatory rules or regulations stipulated by securities firms for securities brokerage business, the securities firm shall hold the department or practitioner accountable; and
- if it or its securities business unit violates the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》), the CSRC and its local branch office will take such measures as requiring rectification, regulatory interviews, issuance of caution letter, temporary suspension of license-related approvals, punishment of related personnel, suspension of new business approval, imposing limitations on business activities, and other regulatory measures. Any violation of laws and regulations will be punished in accordance with the law. If it constitutes a crime, the company or department will be transferred to the proper judicial organization for prosecution.

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Futures Brokerage

The provisions of the Administrative Regulations on Futures Trading (《期貨交易管理條例》) set out a licensing system that applies to the business of futures companies. The CSRC is responsible for the issuance of licenses according to the types of business of commodity futures and financial futures. Apart from domestic futures brokerage business, futures companies may also apply to conduct business of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC. Futures trading shall strictly comply with the deposits system. A futures company engaged in brokerage business shall accept orders of clients and trade futures in its own name for clients, and the clients shall be solely liable for the transaction results.

Futures Intermediary Business

According to the Interim Measures on Provision of Intermediary Business to Futures Companies by Securities Firms (《證券公司為期貨公司提供中間介紹業務試行辦法》) (trial from April 20, 2007), a securities firm providing intermediary business service to futures companies shall obtain relevant qualifications. Securities firms shall only engage in the provision of intermediary business service to their wholly owned or controlling futures companies, or futures companies with which they are under common control of the same entity. Securities firms and futures companies shall be independent from each other. Securities firms shall employ adequate qualified practitioners to carry out futures intermediary business. Staff participating in the futures intermediary business in securities firms shall not take part in futures trading. Securities firms shall not, directly or indirectly, raise funds or provide guarantees for futures trading clients.

Distribution of Financial Products

According to the Administrative Provisions on the Distribution of Financial Products by Securities Firms (《證券公司代銷金融產品管理規定》) (promulgated on November 12, 2012 with immediate effect), a securities firm engaging in the distribution of financial products shall obtain relevant qualifications to carry out the distribution of financial products. Its personnel engaging in the distribution of financial products shall obtain the relevant securities qualifications. A securities firm shall centralize the regulation of distribution of financial products and assess the eligibility of the client. The information given on the financial products shall be comprehensive, fair and accurate. A securities firm is also required to set up a client feedback system.

Sales of Securities Investment Funds

According to the provisions of the Management Measures on Sales of Securities Investment Funds (《證券投資基金銷售管理辦法》) (effective from June 1, 2013), a securities firm shall register with the local office of the CSRC where the company operates and obtain the relevant qualifications before engaging in the sale of securities investment funds. A securities firm shall establish a specialized funds sales department, and staff participating in the sale of securities investment funds shall be qualified to carry out such activities. It shall set up a comprehensive management system for fund holder accounts and capital accounts, an optimal system of procedures and authorization for fund holders in relation to fund depository and withdrawal, and a monitoring system for fund distribution.

Securities Investment Consulting

According to the provisions of the Provisional Measures on Management of Investment Consultations on Securities and Futures (《證券、期貨投資諮詢管理暫行辦法》) (effective from April 1,

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1998), a firm which engages in securities investment consulting business shall obtain the required qualifications and a business license from the CSRC; practitioners of securities investment consulting shall obtain the relevant qualifications and may engage in securities investment consulting service under a qualified securities investment consulting institution.

According to the Regulations on the Securities Investment Advisor Business (Provisional) (《證券投資顧問業務暫行規定》) (effective from January 1, 2011), a securities firm and its investment advisors shall provide securities investment advisory service in good faith and shall not jeopardize the interests of clients by acting in favor of the company and its associates, investment advisors and their related parties, or other particular clients.

The Provisions on the Release of Securities Research Reports (Provisional) (《發佈證券研究報告暫行規定》) (effective from January 1, 2011) stipulate that the publishing of securities research reports by securities firms and securities investment advisory agencies shall abide by laws, administrative regulations and other relevant requirements, follow the principles of independence, objectiveness, fairness and prudence, effectively prevent conflicts of interest, and treat objects under issuance in a fair manner. They shall also be prohibited from disseminating false, untrue and misleading information and from engaging in or participating in insider trading or securities market manipulation.

Margin Financing and Securities Lending

According to the provisions of the Management Measures on Margin Financing and Securities Lending of Securities Firms (《證券公司融資融券業務管理辦法》) (effective from July 1, 2015), a securities firm that applies for the qualification to engage in margin financing and securities lending business must satisfy the following conditions:

- it shall have the qualification to engage in the securities brokerage business;
- it shall have a sound system of corporate governance and effective internal controls in place to identify, control and prevent any potential operational risks and internal management risks;
- it shall have not been subject to any investigation or rectification for any breach of rules or regulations by the CSRC during the past two years;
- it shall have a sound financial position, with each of its risk control indicators in compliance with the relevant requirements for the recent two years and its registered capital and net capital also in compliance with the requirements subsequent to the commencement of the margin financing and securities lending business;
- its clients' assets remain secured and intact with effective measures in place for clients' third-party fund depository, and clients' particulars remain true and intact;
- it shall maintain a comprehensive feedback mechanism that ensures the prompt and proper resolution of any disputes with its clients;
- it shall maintain a client eligibility evaluation system in compliance with the regulations and self-regulatory requirements to ensure that the client is qualified to invest in the relevant products;
- it shall maintain a resilient information security system, with no material incidents during the past year due to any management issues; and the systems designed for margin

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financing and securities lending business shall have passed the tests of stock exchanges and securities registration and clearing institutions;

- it shall have an appropriate number of senior management and professionals who are responsible for the margin financing and securities lending business; and
- any other conditions stipulated by the CSRC.

Securities firms engaging in margin financing and securities lending shall open various accounts in their own name at securities registrars, including a special securities lending account, margin guarantee account, margin settlement account and margin capital settlement account. Such securities firms shall also open accounts at commercial banks, such as a special margin financing account and margin capital guarantee account. Securities firms shall, with reference to third-party custody of clients' transaction settlement funds, enter into a margin custody agreement with their clients and commercial banks. The capital and securities provided by securities firms to their clients are limited to those capital and securities in the special margin financing account and special securities lending account.

Before providing margin financing and securities lending service to its clients, a securities firm shall collect information about its clients, including making credit investigation into its clients, knowing their identities, property status, income situations, securities investment experience, risk appetites and records of honesty and compliance. It shall also deal with client suitability management properly and keep records of such information in written or electronic form. A securities firm shall not open a credit account for anyone who meets any of the following conditions: failure to submit the required information; having less than half a year experience in securities trading; lacking the adequate risk bearing capability; less than RMB0.5million of its average daily securities assets for the most recent 20 trading days; having records of major breaches of contracts; or being the shareholder or connected person of the company.

The term for margin financing and securities lending agreed between securities firms and their clients shall not exceed the time limit permitted by the relevant stock exchange. Securities firms may negotiate with their clients in respect of the rates at which the margin financing and securities lending services will be provided.

Amounts attributed to margin financing and securities lending business by a securities firm shall not exceed four times of its net capital. A comprehensive management system, operating procedures as well as a risk identification, evaluation and control system shall also be established.

Collateralized Stock Repurchase

According to the Measures on Collateralized Stock Repurchase and Registration and Settlement Business (Provisional) (《股票質押式回購交易及登記結算業務辦法（試行）》) promulgated jointly by CSDC and each of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on May 24, 2013, respectively, the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall implement the trading permissions management of securities firms that participate in collateralized stock repurchase. Securities firms shall establish client qualification examination systems and perform due diligence with respect to their clients. Examination contents shall include credit status, asset scale, risk tolerance and cognition of the securities market. Securities firms shall provide to their clients a comprehensive introduction of the business rules and a full disclosure of the risks.

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Securities Repurchase

According to the Measures on Securities Repurchase and Registration and Settlement Business (《約定購回式證券交易及登記結算業務辦法》) promulgated jointly by CSDC and each of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on December 10, 2012, respectively, the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall implement the trading permissions management of securities firms that participate in securities repurchase. Securities firms shall establish client qualification examination system. Examination contents shall include credit status, asset scale, risk tolerance and cognition of the securities market. Securities firms shall provide to their clients a comprehensive introduction of the business rules and a full disclosure of the risks.

Secondary Offering Business

Pursuant to the provisions of the Trial Measures on Supervision and Administration of the Secondary Offering Business (《轉融通業務監督管理試行辦法》) (implemented on October 26, 2011), secondary offering business refers to a business in which a securities finance company lends its own funds or funds legally raised and its securities to a securities firm for conducting margin financing and securities lending activities. To conduct secondary offering business, a securities finance company shall, in its own name, open a securities account, a guaranteed securities account and a securities settlement account specific for secondary offering business with the securities registration and settlement authority. A securities financial company shall also set up a client credit assessment mechanism to evaluate the credit of securities firms and determine and adjust the credit line based on the evaluation. Furthermore, a securities financial company shall charge deposits at a certain rate from securities firms for the secondary offering business.

Proprietary Securities Trading

Provisions of the Regulations on Supervision and Management of Securities Firms and the Guidelines on Proprietary Business of Securities Firms (《證券公司證券自營業務指引》) (effective from November 11, 2005) and the Regulations on Supervision and Management of Securities Firms (《證券公司監督管理條例》) stipulate that securities firms engaged in proprietary securities trading shall be limited to the trading of publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authorities of State Council. A securities firm engaged in proprietary securities trading business shall be registered under the name of the proprietary securities account holder. Risk control indicators, such as the proportion of the total value of proprietary securities to the net capital of the company, the proportion of the value of a single security to the net capital of the company, and the proportion of the amount of a single security to the total amount of issued securities, shall each comply with the regulations of the CSRC.

According to the List of Securities Investment Products for the Securities Investment and Trading of Securities Firms (《證券公司證券自營投資品種清單》), which is the Appendix to Regulations on Investment Scopes of Securities Investment and Trading Business of Securities Firms and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》) (effective from June 1, 2011 and amended on November 16, 2012), securities firms engaged in proprietary securities trading business are permitted to invest in the following securities:

- securities that have been or may be legally listed, traded and transferred on a domestic stock exchange;
- securities that have been listed and transferred on the NEEQ;

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- private placement bonds that have been or may be legally listed and transferred on qualified regional equity trading markets, and stocks that have been listed and transferred on qualified regional equity trading markets;
- securities that have been or may be legally traded on the domestic interbank market; and
- securities issued with the approval of the national financial regulatory authority or its authorized bodies or after filing with the national financial regulatory authority or its authorized bodies and traded over the counter at domestic financial institutions.

Securities Asset Management

According to the Administrative Measures on Client Asset Management Business of Securities Firms (《證券公司客戶資產管理業務管理辦法》) (amended on June 26, 2013), the Implementation Rules for Targeted Asset Management Business of Securities Firms (《證券公司定向資產管理業務實施細則》) (effective from October 18, 2012), the Implementation Rules for Collective Asset Management Business of Securities Firms (《證券公司集合資產管理業務實施細則》) (effective from June 26, 2013), and Circular on Strengthening Supervision on Asset Management Business of Securities Firms (《關於加強證券公司資產管理業務監管的通知》) (effective from March 14, 2013), securities firms engaged in client asset management shall comply with the relevant conditions and shall apply to the CSRC for the qualification of engaging in client asset management business. Securities firms may undertake TAM business for individual clients, CAM business for multiple clients and SAM business for clients.

The Administrative Regulations on Asset-backed Securitization of Securities Firms and Subsidiaries of Fund Management Companies (《證券公司及基金管理公司子公司資產證券化業務管理規定》) (promulgated on November 19, 2014 with immediate effect), allows securities firms and subsidiaries of fund management companies which are qualified for client asset management to conduct the asset-backed securitization business.

Management of Publicly Offered Securities Investment Funds

Pursuant to the Securities Investment Funds Law (《證券投資基金法》) and the Interim Provisions on the Management of Publicly Offered Securities Investment Funds by Asset Management Institutions (《資產管理機構開展公募證券投資基金管理業務暫行規定》) (effective from June 1, 2013), publicly offered securities investment fund managers shall be fund management companies or other institutions such as securities firms approved by the CSRC. Any securities firm applying for business of fund management shall comply with the following conditions:

- it has over 3 years' management experience in securities assets, with good performance in securities products during the past 3 years;
- it shall have comprehensive corporate governance, sound internal control and effective risk management;
- its operations shall have been in good condition during the past 3 years, with robust finance;
- it shall act honestly and in compliance with relevant requirements, without any material breach of laws and regulations as filed by regulatory authorities during the past 3 years, and shall not be subject to any current investigation or rectification for any material breach of laws and regulations;

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- it is a member of Asset Management Association of China;
- its total AUM shall not be less than 20 billion or its AUM of CAM business shall not be less than 2 billion;
- during the past 12 months, every risk control indicator has met the specified criteria continuously; and
- it shall meet other requirements of the CSRC.

Securities firms engaging in management of publicly offered securities investment funds shall establish dedicated departments for fund business, building separate fund decision-making process and relevant firewall system; have information systems and security facilities as required; establish systems for fair trading and connected transaction management, optimize the monitoring mechanism for fair trading and irregular trading, treat different assets under management fairly and prevent insider trading.

The Securities Investment Funds Law also stipulates matters such as registration for mutual funds, trading of fund units, scope of investment fund and its restriction, protection of fund holders' rights and information disclosure etc.

Private Equity Investment

Pursuant to the provisions of the Regulations for Direct Investment Business of Securities Firms (《證券公司直接投資業務規範》) (as amended on January 3, 2014) and promulgated by the SAC, securities firms which engage in private equity investment business shall establish a private equity investment subsidiary in accordance with the requirements of the relevant regulatory authorities. Securities firms shall not develop private equity investment business in any other form. A private equity investment subsidiary and its affiliates shall establish a sound investment management system which specifies its investment field, investment strategies, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategies, etc. A private equity investment subsidiary may engage in the following businesses:

- investing in equity or debt, or other investment funds related to equity or debt of an enterprise with its own capital or through establishing a private equity investment fund;
- providing financial consulting service in respect of equity investment funds or debt investment funds to clients; and
- other businesses approved by the CSRC. A private equity investment subsidiary may not develop any securities business that shall be operated by securities firms according to law.

The Regulations for Private Equity Investment Business of Securities Firms (《證券公司直接投資業務規範》) stipulates the rules in respect of establishing a private equity investment fund business by a private equity investment subsidiary, which include: it shall raise funds from eligible investors in a non-public way and the number of investors may not exceed 200; a private equity investment subsidiary shall hold over 51% of shares of its subordinate fund management institutions and have rights over management control; a private equity investment fund shall entrust its capital to asset custodian institutions.

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Alternative Investment

According to the Regulations on Investment Scopes of Securities Investment and Trading Business of Securities Firms and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》), securities firms may establish subsidiaries to engage in investment on financial products which are excluded on the List of Securities Investment Products for the Securities Investment and Trading of Securities Firms (《證券公司證券自營投資品種清單》); securities firms shall have obtained the qualification for securities investment and trading before they establish alternative subsidiaries and change the important provisions of its Articles of Associations according to the Securities Law and the Regulations on Supervision and Administration of Securities Firms (《證券公司監督管理條例》), and prior approval from the local branch office of CSRC where the company is located. Securities Firms may not provide facility or guarantee to the alternative investment subsidiaries.

Securities Underwriting and Sponsorship

According to the regulations of the Administrative Measures for the Sponsorship of the Offering and Listing of Securities (《證券發行上市保薦業務管理辦法》) (effective from June 14, 2009), securities firms shall apply for the sponsoring institution qualification from the CSRC to sponsor the offering and listing business of securities. In order to fulfill sponsorship responsibilities, sponsoring institutions shall designate an individual, who has obtained sponsor representative qualification, to be responsible for sponsorship duties. Issuers shall employ securities firms which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters: IPO and listing, issuance of new shares or convertible corporate bonds by listing companies, and other conditions identified by the CSRC.

Any securities firm applying for sponsoring institution qualification shall meet the following requirements:

- its registered capital shall be no less than RMB100 million and its net capital shall be no less than RMB50 million;
- it shall have comprehensive systems of corporate governance and internal control and indicators of risk control in line with relevant regulations;
- its sponsor business shall have sound mechanisms of business procedures, internal risk assessment and control, as well as a reasonable internal structure, proper research and sales capabilities, and other background support;
- it shall have a strong sponsor business team, with reasonable professional structure, and the number of professionals shall not be less than 35, among which, the number of personnel who have engaged in sponsor-related businesses during the past three years shall not be less than 20;
- the number of its professionals who have qualified as sponsor representatives shall not be less than four;
- it has not been subject to any administrative penalties for any material breach of laws and regulations during the past three years; and
- it shall meet other requirements of the CSRC.

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In addition, the Views of the CSRC on Further Promoting IPO Reform (《中國證監會關於進一步推進新股發行體制改革的意見》) (promulgated on November 30, 2013 with immediate effect) further stipulated that sponsor institutions and securities service institutions shall undertake in public offering and listing documents that if false, or misleading statements are made, or a material omission occurs in the documents issued, prepared and produced by issuers for IPO which result in losses to investors, then sponsor institutions and securities service organizations must compensate the losses of investors in accordance with the law.

According to the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》) (effective from January 15, 2015), the issuance of corporate bonds shall be underwritten by securities firms with qualification to engage in securities underwriting business. When underwriting corporate bonds, underwriters shall be in compliance with the Administrative Measures for the Issuance and Trading of Corporate Bonds and applicable regulations on due diligence, risk control and internal control issued by the CSRC and the SAC, to formulate a strict risk management system, and to internal control system and enhance pricing and placing management.

Lead Brokerage in the National Equities Exchanges and Quotations

According to the Administrative Measures on National Equities Exchange and Quotations Company Limited (Provisional) (《全國中小企業股份轉讓系統有限責任公司管理暫行辦法》) (effective from January 31, 2013), securities firms may act as lead broker in the National Equities Exchange and Quotations. The lead brokerage business includes recommending the listing of shares of joint stock companies, continuously supervising listed companies, trading shares of joint stock companies on behalf of investors, providing market-making service for the transfer of shares, and other businesses as specified by National Equities Exchange and Quotations Company Limited.

Under the supervision of National Equities Exchanges and Quotations Company Limited, lead brokers, law firms, accounting firms and other institutions and personnel providing services in relation to the transfer of shares shall act in good faith and diligently perform their legal duties in strict compliance with laws, regulations and industry standards, and shall also be responsible for the truthfulness, accuracy and completeness of documents they issue.

Over-the-Counter Market Business

As the provisions of the Administrative Measures of Securities Firms on Over-the-Counter Market (for Trial Implementation) (《證券公司櫃檯市場管理辦法（試行）》) effective from August 15, 2014 stipulate, securities firms shall engage in over-the-counter business in accordance with the provisions and be subject to the governance of the SAC. Apart from private equity products which are subject to prior approval and filing as explicitly required by financial regulatory authorities, private equity products issued, sold and transferred by securities firms in over-the-counter market are subject to filing after the issuance, selling and transfer. Products issued, sold and transferred by securities firms in over-the-counter market include but are not limited to: products such as asset management plans and corporate debt financing instruments established or underwritten by securities firms or their subsidiaries in way of private placing; products established by other institutions such as banks, insurance companies and trust companies and issued, sold and transferred by securities firms; financial derivatives and other products as allowed by the CSRC and the SAC.

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Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Firms

Corporate governance

Securities firms shall comply with the corporate governance requirements regarding the composition, operation, convening and voting procedures of shareholders’ meetings, the board of directors and the supervisory committee as set out in the Company Law, the Securities Law, the Regulations on Supervision and Management of Securities Firms and the Rules for Governance of Securities Firms (as amended on January 1, 2013 with immediate effect).

Securities firms shall establish a sound corporate governance structure. The corporate governance structure of securities firms includes proper decision-making processes and rules of procedures, a highly efficient and rigorous business operating system, a sound and effective internal control and feedback system, and effective incentive and restraint mechanisms. The boards of supervisors and independent directors of securities firms shall fully exercise their supervising functions to avert the risks of manipulation by substantial shareholders or control by insiders.

A securities firm that engages in two or more businesses in securities brokerage, asset management, margin financing and securities lending, securities underwriting and sponsoring shall have a remuneration and nomination committee, an audit committee and a risk control committee under its board of directors to perform the duties and exercise the rights as specified in the articles of association of the company. The persons in charge of the remuneration and nomination committee and the audit committee shall be independent directors.

The Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Firms (《證券公司董事、監事和高級管理人員任職資格監管辦法》) (amended on October 19, 2012 with immediate effect), specifies the requirements on the qualifications of directors, supervisors and senior management. Each of them shall obtain qualifications approved by the securities regulatory authorities before they hold the post.

Risk control

Pursuant to the Administrative Measures for Risk Control Indicators of Securities Firms (《證券公司風險控制指標管理辦法》) (effective from December 1, 2008), a securities firm shall prepare financial statements and calculations of its net capital and risk capital reserve and regulatory report of risk control indicators, in accordance with relevant provisions. The Administrative Measures for Risk Control Indicators of Securities Firms stipulates a warning standard and a minimum regulatory standard for risk control indicators that securities firms are required to comply with. The CSRC may make appropriate adjustments to the standards for risk control indicators and the ratio of risk capital reserves of a particular business according to the governance structure, the internal control level and risk control of the securities firms.

Pursuant to the Regulations on the Calculation Standard for Risk Capital Reserve of Securities Firms (《關於證券公司風險資本準備計算標準的規定》) (amended on November 16, 2012 with immediate effect), securities firms shall calculate their main risk capital reserve based on the following criteria:

- (i) securities firms that engage in securities brokerage business shall calculate the risk capital reserve of brokerage business at 2% of the clients’ total transaction settlement funds in their custody;

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- (ii) securities firms that engage in securities investment and trading business shall calculate the risk capital reserve at 20%, 15% and 8% of the investment scale for securities derivatives, equity securities and fixed-income securities without risk hedging, respectively; for securities derivatives, equity securities and fixed-income securities with risk hedging, securities firms shall calculate the risk capital reserve at 5% of the investment scale. The investment scale of stock index futures shall be calculated at 15% of the total value of futures contract, while the investment scale of interest rate swap shall be calculated at 3% of total nominal principal amount in interest rate swap contracts. Securities firms that engage in securities investment and trading business and violate the stipulated proportion shall, before the completion of relevant rectification, calculate the risk capital reserve concerning the part beyond the proportion at 100% of the investment costs;
- (iii) securities firms that engage in securities underwriting business shall calculate risk capital reserve of underwriting business at 30%, 15%, 8% and 4%, respectively, of the underwritten amount of stocks of secondary offering projects, stocks of IPO projects, corporate bonds and government bonds;
- (iv) securities firms that engage in securities asset management business shall calculate the risk capital reserve of asset management business at 2%, 2%, 1% and 1% respectively of the specialized, collective, limited, and directional asset management business;
- (v) securities firms that engage in margin financing and securities lending shall calculate the risk capital reserve for margin financing and securities lending at 5% and 10% respectively of the margin financing business scale and securities lending business scale of the clients;
- (vi) securities firms that establish branch offices, securities business units and securities branches shall calculate their risk capital reserves at RMB20 million and RMB3 million, respectively; and
- (vii) securities firms shall calculate operational risk capital reserve at 10% of total operating expenses of preceding year.

At present, the CSRC adopts different risk capital reserve calculation proportions for different types of securities firms so as to match different risk management abilities of securities firms, of which companies in class A for three consecutive years shall calculate the relevant risk capital reserves at 0.2 of the benchmark calculation standards prescribed in the above items (i) through (v).

Pursuant to the Norms for the Comprehensive Risk Management of Securities Firms (《證券公司全面風險管理規範》) (effective from March 1, 2014), securities firms shall implement comprehensive risk management to avoid risks of business operation, such as liquidity risks, market risks, credit risks and operating risks, and shall establish and improve a comprehensive risk management system that is in line with their development strategies, including feasible management rules, a sound organizational framework, a reliable information technology system, a quantitative risk indicators system, a team of professionals, an effective risk response mechanism and an advanced risk management culture.

Pursuant to the provisions of the Guidelines for the Liquidity Risk Management of Securities Firms (《證券公司流動性風險管理指引》) (effective from March 1, 2014), securities firms shall strengthen

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liquidity risk management and establish a sound liquidity risk management system for effective identification, measurement, monitoring and control of liquidity risks.

Pursuant to the provisions of the Regulations on Risk Settlement of Securities Firm (《證券公司風險處置條例》) (effective from April 23, 2008), the securities regulatory authorities of the State Council shall organize, coordinate and supervise the risk settlement of securities firms. In the event that risk control indicators don't meet relevant requirements or there are situations that may impact sustainable business operation or any major risk is found, the securities regulatory authorities of the State Council may take risk settlement measures such as rectification, custody, takeover, administrative restructuring, revocation, bankruptcy, liquidation and reorganization, etc.

Classified regulation

Pursuant to the provisions of the Regulations on Classification of Securities Firms (《證券公司分類監管規定》) (effective from May 14, 2010), the CSRC classifies securities firms into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk control capability, competitiveness and continuous compliance of securities firms for prudent regulation purposes. “Regulatory points” system is one of the systems adopted by the CSRC to assess the continuous compliance of securities firms: certain incidents leading to the imposition of penalties will result in the CSRC deducting the corresponding amount of “regulatory points,” which may ultimately have negative effects on the securities firms’ regulatory rating. However, when determining the regulatory rating of a securities firm, the CSRC will not only consider the deduction in regulatory points but will also take into consideration its risk management capability (mainly assessed on the basis of the securities firms’ capital adequacy, corporate governance and continuous compliance management, dynamic risk control, safety of IT system, protection of clients’ interest and information disclosure) and market competitiveness (industry-wide ranking of net income, net profit, the number of deals of underwriting issuance of shares or bonds, cost management, and innovative business, etc.) and assess the condition of the securities firms as a whole.

Pursuant to the principle of classified regulation, the CSRC sets up different standards on risks-control indicators and calculating proportions for different types of securities firms and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections.

Corporate Governance and Risk Control of Futures Companies

Corporate governance

The provisions of the Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) stipulate that the CSRC implements the management system on the qualifications of directors, supervisors, senior management and other futures practitioners of futures companies. The business, personnel, assets, and finance of a futures company shall be strictly separated from those of its controlling shareholders and *de facto* controller, and they should have independent operations and accounting; a futures company shall have a board of supervisors or supervisors, and shall appoint a chief risk officer, etc.

The Management Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格管理辦法》) further

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strengthens the management of qualifications of the directors, supervisors and senior management of futures companies.

Risk control

According to the Supervision and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), the Administrative Measures on Futures Trading (《期貨交易管理條例》), and the Administrative Measures for Risk Monitoring Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) (effective from July 1, 2013), futures companies shall establish effective operations systems and procedures related to risk management, internal control and futures margin depository so as to effectively isolate risks among different business as well as to ensure the safety of clients' assets and transactions. A futures company engaging in futures brokerage and other futures business at the same time shall strictly implement the systems for the separation of business and capital, while mixed operations are prohibited. Futures companies shall maintain a chief risk officer responsible for monitoring and inspecting compliance and risk management in its operation and management.

Classified regulation

Pursuant to the provisions of the Regulations on Classification of Futures Companies (《期貨公司分類監管規定》) (effective from April 12, 2011), the CSRC classifies futures companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk management capability, market competitiveness and continuous compliance of futures companies for prudent regulation purposes. According to the principle of classified regulation, the CSRC set up various standards on margin proportions of futures investors for different types of futures companies and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections.

Corporate Governance and Risk Control of Asset Management Company

Corporate governance

Pursuant to provisions of the Regulations on Formation of Subsidiaries of Securities Firms (Provisional) (《證券公司設立子公司試行規定》) (as amended on October 11, 2012), as the subsidiary of a securities firm, an asset management company shall establish a sound corporate governance structure, sound risk management system, compliance management system and internal control system, and a securities firm shall not take advantage of its capacity as controlling shareholder to damage the legal rights and interests of its asset management subsidiaries and their clients; Chinese Wall systems should be established between a securities firm and its asset management subsidiaries to avoid potential risk transference or conflicts of interests.

Risk control

In accordance with provisions of the Administrative Measures for the Client Asset Management Business of Securities Firms (《證券公司客戶資產管理業務管理辦法》), the securities firms shall, upon carrying out the client asset management business, fully understand the clients, classify the clients, introduce proper products or service to the clients pursuant to the risk matching principle, and be prohibited from misleading clients to purchase the products or service not matching with their risk bearing capacity. The securities firms shall conduct their operation and management in a centralized

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manner, and shall enter into the external asset management contracts uniformly. In addition, to engage in the client asset management business, the securities firms shall establish a sound risk control system and compliance management system, and shall take effective measures to separate the management of the client asset business from other business, control the improper flow and utilization of the sensitive information and prevent any insider trading and conflicts of interests.

Corporate Governance and Risk Control of Sponsoring Institution

Corporate governance

Pursuant to provisions of the Regulations on Formation of Subsidiaries of Securities Firms (Provisional) (《證券公司設立子公司試行規定》) (as amended on October 11, 2012), as the subsidiary of a securities firm, a company engaged in securities sponsoring and underwriting business shall establish a sound corporate governance structure, sound risk management system, compliance management system and internal control system, and a securities firm shall not take advantage of its capacity as controlling shareholder to damage the legal rights and interests of its subsidiaries and their clients. Chinese Wall systems should be established between a securities firm and its subsidiaries to avoid potential risk transference or conflicts of interests.

Risk control

According to provisions of the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (《證券發行上市保薦業務管理辦法》) (effective from June 14, 2009), a sponsoring institution shall establish a sound internal control system for sponsorship and establish as well as improve the due diligence system, guidance system, internal auditing system for documents of application, system of continuing supervision over the issuer after the listing of securities, continuing training system for sponsorship-related personnel as well as sponsorship record system so as to ensure that sponsorship-related personnel shall act with due care and skill, and strictly control risks as well as improve the overall quality of sponsorship.

Corporate Governance and Risk Control of Private Equity Company

Corporate governance

Pursuant to provisions of the Regulations for Direct Investment Business of Securities Firms (《證券公司直接投資業務規範》), securities firms shall strengthen personnel management and avoid moral risk. Employees of securities firms shall not serve as senior members or private equity investment practitioners concurrently for a private equity investment subsidiary and its affiliates or any private equity investment funds, or engage in any private equity investment business in other forms that breach the laws. Personnel of securities firms having conflicts of interests shall not serve as a director, supervisor or member of the investment decision-making committee concurrently for the aforesaid entities. For other personnel assuming posts above, securities firms shall set up a strict and effective system of internal control system to avoid potential conflicts of interests or morality risk. Effective information barriers should be established between securities firms, private equity investment subsidiaries and their affiliates, and private equity investment funds to strengthen the isolation, monitoring and management of sensitive information and prevent dissemination and improper use of sensitive information between securities and private equity investment businesses, so as to prevent insider trading and the risk of tunneling.

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Risk control

Pursuant to provisions of the Regulations for Private Equity Investment Business of Securities Firms (《證券公司直接投資業務規範》), a private equity investment subsidiary and its affiliates shall establish a sound investment management system which specifies its investment scope, investment strategies, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategies, etc. A private equity investment subsidiary and its affiliates shall set up a committee for investment decision-making procedures as well as a mechanism to identify and analyze risks in order to prevent investment risk effectively. A private equity investment subsidiary and its affiliates shall not provide guarantees to enterprises or individuals other than private equity investment subsidiaries and their affiliates and private equity investment funds or become a contributor that bears joint liability for debts of the invested enterprise. A private equity investment subsidiary and its affiliates shall also strengthen the management of enterprises invested in and continually follow up, analyze and assess operations of enterprises invested in as well as deal with investment risks in a timely manner when they materialize.

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. SAFE, under the authority of the PBOC, is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to provisions of the Regulations on the Foreign Exchange Management of the People's Republic of China (《中華人民共和國外匯管理條例》) (the “Foreign Exchange Management Regulations”), amended on August 5, 2008 with immediate effect, international payments and transfers are classified into current account items and capital account items. In the PRC, current international payments and transfers are not subject to approval from foreign exchange administration, while capital account items are.

According to the Foreign Exchange Management Regulations, current account foreign exchange income may, in accordance with the relevant provisions of the state, be retained or sold to any financial institution engaged in foreign exchange settlement and sales business. Where any foreign exchange income on capital account shall be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under state provisions. PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, with the provision of valid receipts and proof of transactions. Foreign invested enterprises which need foreign exchange for the distribution of profits to shareholders, and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign exchange, may with the provision of shareholders' resolutions of such PRC enterprises or board resolutions on the distribution of profits, and with the submission of other required supporting documents, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks. Convertibility of foreign exchange in respect of capital account items, such as private equity investment and capital contribution, is still subject to restriction, and prior approval from SAFE or the relevant branch.

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On December 26, 2014, SAFE issued the Notice on Relevant Issues Concerning the Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》) with immediate effect. The notice stipulates that:

- SAFE and its branches and the Foreign Exchange Administrative Department (“Foreign Exchange Bureaus”) supervise, manage and inspect, among other things, the business registration, account opening and use, cross-border payments and capital exchange involved in the overseas listing of domestic companies.
- A domestic company shall conduct overseas listing registration with Foreign Exchange Bureaus at the place of its incorporation with relevant materials within 15 working days after the completion of the offering of its overseas listing shares.
- A domestic company may repatriate the proceeds from offshore listing to its domestic account or retain such proceeds at its overseas account. The use of such proceeds shall be consistent with the content of the prospectus or other public disclosure documents such as documents for issuance of corporate bonds, circulars to shareholders, and board and shareholders’ resolutions. Proceeds raised from the issuance of convertible bonds by a domestic company and intended to be remitted to its domestic account shall be remitted to its specific domestic account for foreign debts, and the company shall complete relevant procedures in accordance with relevant regulations on foreign debts administration; and proceeds raised from the issuance of other types of securities by a domestic company and intended to be remitted to its domestic account shall be remitted to its special domestic account for offshore listing (foreign exchange) or payment account (RMB).
- A domestic company may use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to repurchase overseas shares. Where the domestic company chooses to use and remit funds out of the PRC, it should, by presenting the certificate of overseas listing registration, which was obtained following the registration of the relevant repurchase information (including changes) at the local Foreign Exchange Bureaus (if it fails to register the repurchase relevant information, it is required to conduct the registration within 20 working days before the proposed repurchase and obtain the relevant registration certificate), and statements or supporting materials of the repurchase, complete the remittance with deposit bank through domestic account for offshore listing (foreign exchange) or payment account (RMB). Upon completion of the repurchase, any surplus in the funds remitted overseas for such repurchase shall be transferred back to domestic company’s domestic account for offshore listing (foreign exchange) or payment account (RMB).
- A domestic shareholder may, in accordance with applicable regulations, use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to increase his/her overseas shares of a domestic company. Where the domestic shareholder chooses to use and remit funds out of the PRC to increase his/her shareholding, he/she should, by presenting his/her overseas shareholding registration certificate and statements or supporting materials of the shareholding increase, complete the transfer with deposit bank through domestic shareholder’s domestic account for offshore holding. Upon completion of the shareholding increase, any surplus in the funds remitted overseas for such increase shall be transferred back to the said account. The domestic shareholder may, by presenting the overseas shareholding registration certificate, complete such funds transfer or settlement procedures with the bank.

REGULATORY ENVIRONMENT

- A domestic shareholder’s income raised from reduction or transaction of overseas shares of a domestic company or raised from the shares delisted from overseas stock exchange on the capital account may be deposited at the shareholder’s overseas account or remitted to the domestic account for offshore shareholding. Where the domestic shareholder chooses to remit the income to its domestic account, the domestic shareholders may, by presenting the overseas shareholding registration certificate, complete the transfer or settlement procedures with the bank.

According to provisions of the State Council Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (issued on October 23, 2014 with immediate effect), SAFE and its branches cancelled approval for the remittance and settlement of proceeds raised from overseas listing of foreign shares of domestic companies.

Information Disclosure

The Notice on the Relevant Issues Regarding Information Disclosure of Securities Firms (《關於證券公司信息公示有關事項的通知》) (effective from July 25, 2006), sets forth the specific requirements on information disclosure by securities firms, including methods, requirements and contents of information disclosure.

Provisions on Strengthening the Supervision and Administration of Listed Securities Firms (《關於加強上市證券公司監管的規定》) (amended on June 30, 2010 with immediate effect), requires timely disclosure of regular reports and interim reports by listed securities firms within the prescribed period. Meanwhile, it requires that listed companies shall establish a sound information management system in accordance with the characteristics of the securities industry in the PRC, their practices and general regulations regarding information disclosure by listed companies.

Anti-Money Laundering

Securities firms shall comply with the requirements related to anti-money laundering stipulated in the Anti-Money Laundering Law of the People’s Republic of China (《中華人民共和國反洗錢法》) (effective from January 1, 2007), the Provisions on Anti-Money Laundering of Financial Institutions (《金融機構反洗錢規定》) (effective from January 1, 2007), and the Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》), (effective from August 1, 2007).

The Measures on Anti-Money Laundering by the Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》), enacted by the CSRC and effective from October 1, 2010, further regulates the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities shall also establish and enhance internal control systems for anti-money laundering.

The Financial Action Task Force on Money Laundering (“FATF”) is an inter-governmental body established in 1989 with the objective of setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The

REGULATORY ENVIRONMENT

FATF monitors the progress of its members in implementing necessary measures, reviewing money laundering and terrorist financing techniques and countermeasures, and promoting the adoption and implementation of appropriate measures globally. The PRC became a member of the FATF in 2007, and the first mutual evaluation report was adopted in June 2007 with a follow-up report published in March 2012.

***International Convention for the Suppression of the Financing of Terrorism* (《制止向恐怖主義提供資助的國際公約》)**

The International Convention for the Suppression of the Financing of Terrorism was adopted by Resolution 54/109 on December 9, 1999 at the 54th session of the General Assembly of the United Nations. This convention aims to prevent, prosecute and punish the financing of terrorist activities and to promote inter-governmental co-operation to achieve this purpose. The government of the PRC ratified this convention on February 28, 2006 with some reservations.

***The United Nations Convention Against Corruption* (《聯合國反腐敗的公約》)**

The PRC is a party to the United Nations Convention against Corruption, a multilateral convention adopted by the General Assembly of the United Nations on October 31, 2003. This convention requires parties to implement anti-corruption measures affecting their laws, constitution and practices, to measures aimed at promoting the prevention, detection and sanctioning of corruption, as well as to strengthen the cooperation between ratifying parties on these matters. The government of the PRC ratified this convention on October 27, 2005, with reservation on paragraph 2 of Article 66.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Establishment and Development of the Company

The history of our Company can be traced back to December 10, 1997 when Orient Securities Limited Liability Company (東方證券有限責任公司), our Company’s predecessor, was established with a registered share capital of RMB1 billion, funded by 15 shareholders.

The shareholding structure of Orient Securities Limited Liability Company as of the date of the establishment was as follows:.

Names of the Shareholders	Percentage of Shareholding
Finance Bureau of Shanghai	21%
Shenergy Group	10%
Shanghai Bund Building House Exchange Corporation Ltd (上海外灘房屋置換有限公司)	10%
Shanghai Tobacco Group Co., Ltd (上海煙草(集團)公司)	10%
Shanghai Post and Telecommunications Administration Bureau(上海市郵電管理局) ...	10%
Shanghai Electric Group Company Limited (上海電氣(集團)總公司)	10%
Other Shareholders ⁽¹⁾	29%
Total	100%

Note:

(1) Each of the remaining nine shareholders held less than 10% of the equity interests of Orient Securities Limited Liability Company.

On October 8, 2003, upon approval from the CSRC and the Shanghai municipal government, Orient Securities Limited Liability Company was restructured into a joint-stock limited company, and was renamed as “东方证券股份有限公司”. Our PRC legal advisors have confirmed that the Company has obtained all the approvals for the restructuring from the relevant authorities and the restructuring complies with the relevant laws and regulations.

Since March 23, 2015, our A Shares have been listed on the Shanghai Stock Exchange with the stock code of 600958.

We are a leading and fast-growing capital markets service provider in China with distinguished investment expertise.

Previous Increase in Share Capital

Upon the establishment of Orient Securities Limited Liability Company on December 10, 1997, the registered capital was RMB1,000,000,000.

In October 2003, Orient Securities Limited Liability Company was restructured to a joint-stock limited company and our registered capital was increased to RMB2,139,791,800.

In June 2007, we increased our registered capital to RMB3,079,853,836 through rights issue on the basis of five rights shares for every ten then existing shares.

In September 2007, we increased our registered capital to RMB3,293,833,016 through the issue of bonus shares on the basis of one bonus share for every ten then existing shares (excluding the rights shares issued in June 2007).

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

In December 2011, we increased our registered capital to RMB4,281,742,921 through rights issue on the basis of three rights shares for every ten then existing shares.

On March 23, 2015, following completion of A shares offering, our registered share capital was further increased to RMB5,281,742,921.

Major Changes of Equity Interests of our Shareholders

On April 10, 2000, Finance Bureau of Shanghai and Shanghai State-Owned Assets Operation Co., Ltd. entered into an equity transfer agreement, pursuant to which Finance Bureau of Shanghai transferred 21% equity interest in Orient Securities Limited Liability Company to Shanghai State-Owned Assets Operation Co., Ltd. at a consideration of approximately RMB0.3 billion. The consideration was determined with reference to Orient Securities Limited Liability Company’s net asset minus distributable dividend as of December 31, 1999. The transfer was approved by the CSRC on July 11, 2000.

On December 12, 2001, Shanghai State-Owned Assets Operation Co., Ltd. entered into an equity transfer agreement with Shenergy Group, pursuant to which Shanghai State-Owned Assets Operation Co., Ltd. agreed to transfer 21% equity interest in Orient Securities Limited Liability Company to Shenergy Group at a consideration of approximately RMB0.3 billion. The consideration was determined with reference to Orient Securities Limited Liability Company’s net asset value and other financial figures as recorded in its financial statements as of June 30, 2001. The transfer was approved by the CSRC on March 18, 2002. After the equity transfer, Shenergy Group became the single largest shareholder of Orient Securities Limited Liability Company holding 31% of its equity interest.

Listing on the Shanghai Stock Exchange in 2015

As approved by the CSRC, our Company completed the IPO of our A Shares which were issued at an offer price of RMB10.03 per A Share, and our A Shares have been listed on the Shanghai Stock Exchange under the stock code of 600958 since March 23, 2015. Our Company raised net proceeds of approximately RMB9.8 billion from the A Share offering after deducting underwriting commission of approximately RMB170.3 million and offering related expenses.

The shareholding structure of our Company immediately after the A Share offering was as follows:

<u>Names of the Shareholders</u>	<u>Number of A Shares Held</u>	<u>Approximate percentage of Shareholding (%)</u>
Shenergy Group	1,588,618,183	30.08%
Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司)	295,784,854	5.60%
Wenhui Xinmin United Press Group (文匯新民聯合報業集團)	265,828,211	5.03%
Other A Shares Shareholders	3,131,511,673	59.29%
Total	<u>5,281,742,921</u>	<u>100%</u>

As of the Latest Practicable Date, our Company had not received any notice from the Shanghai Stock Exchange alleging any non-compliance incidents on the part of our Company. The Company confirms that since the date of listing of A Shares on the Shanghai Stock Exchange, the Company has been operating in compliance with applicable SSE Listing Rules in all material respects and there is no matter that should be brought to the attention of the Hong Kong Stock Exchange.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Business Development Milestones

The following table shows various milestones in the history of our business development:

1997	• On December 10, Orient Securities Limited Liability Company (東方證券有限責任公司), our Company’s predecessor, was established.
2003	• In October, Orient Securities Limited Liability Company was restructured into a joint-stock limited company, and was renamed “東方证券股份有限公司”.
2004	• In December, we became a pilot securities firm to carry out relevant innovative activities.
2005	• In February, China Universal Asset Management Limited Liability Company (匯添富基金管理有限公司), the predecessor of China Universal was established.
2006	• In March, we acquired the securities business of North Securities Limited Liability Company (北方證券有限責任公司). As of the end of 2006, the number of our branches was 55.
2007	• In November, we completed the acquisition of Shanghai Jiulian Futures Brokerage Co., Ltd. (上海久聯期貨經紀有限公司), the predecessor of Orient Securities Futures, to expand our business into futures and related business.
2010	• In February, we established Orient Securities Capital Investment to successfully launch private equity investment business, and established Orient Finance Hong Kong to expand our business operation into Hong Kong. • In June, Orient Securities Asset Management was established as the first asset management subsidiary of a PRC securities firms in the industry. All of our Company’s asset management business was then succeeded by Orient Securities Asset Management.
2012	• In June, we expanded our investment banking service through the establishment of Citi Orient by cooperating with Citigroup Global Markets Asia Limited. • In November, we established Orient Securities Innovation Investment to provide alternative investment products.
2015	• In March, our A Shares became listed on the Shanghai Stock Exchange.

Major Investment, Disposal and Acquisitions

Investment in China Universal

In February 2005, China Universal Asset Management Limited Liability Company, the predecessor of China Universal, was established with a registered capital of RMB100,000,000. We invested RMB47.0 million in the registered capital of China Universal Asset Management Limited Liability Company and held 47% of its equity interests.

In September 2013, China Universal Asset Management Limited Liability Company was restructured into a joint-stock limited company and renamed as China Universal. China Universal primarily engages in the business of asset management. As of the Latest Practicable Date, the registered capital of China Universal was approximately RMB117.6 million after the injection of share capital by other parties, and we held 39.96% of its equity interests.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Disposal of Hua An Fund Management Co., Ltd

According to the operation needs of the Company, on March 11, 2005, we entered into an equity transfer agreement with Shanghai Industrial Investment (Group) Co., Ltd (上海工業投資 (集團) 有限公司), an Independent Third Party, to dispose of our entire equity interests in Hua An Fund Management Co., Ltd for a consideration of RMB165.0 million. The consideration was determined with reference to Hua An Fund Management Co., Ltd.’s then and future growth prospects based on the price per share derived from PE ratio model and unconventional dividend growth discount model calculations as of the end of 2003. The disposal was approved by the CSRC on December 13, 2004.

Acquisition of securities assets of North Securities Limited Liability Company

In order to expand our securities business, on December 15, 2005, we entered into a securities asset transfer agreement with the liquidator of North Securities Limited Liability Company, an Independent Third Party, pursuant to which the securities assets and 20 securities business units of North Securities Limited Liability Company were transferred to us for a consideration of approximately RMB30.4 million. The consideration was determined with reference to the valuation of assets of North Securities Limited Liability Company as of May 27, 2005 by a PRC asset appraisal firm. On March 22, 2006, the CSRC approved the closure of the above 20 securities business units of North Securities Limited Liability Company, and on this basis the Company established new securities business units accordingly.

Acquisition of Shanghai Jiulian Futures Brokerage Co., Ltd.

In order to expand our business to futures and related business, in September 20, 2007, we entered into an equity interest transfer agreement with Shanghai Jiulian International Industrial Co., Ltd (上海久聯國際實業有限公司) and Hainan Shenya Industrial Co., Ltd (海南申亞實業股份有限公司), each an Independent Third Party, to acquire from them the entire equity interests in Shanghai Jiulian Futures Brokerage Co., Ltd., the predecessor of Orient Securities Futures, for an aggregate consideration of approximately RMB42.4 million. The consideration was determined with reference to the valuation of assets of Shanghai Jiulian Futures Brokerage Co., Ltd as of December 31, 2006. The acquisition was approved by the CSRC on November 5, 2007.

On December 28, 2007, Shanghai Jiulian Futures Brokerage Co., Ltd was renamed as Orient Securities Futures.

The above investment, disposal and acquisitions have been properly and legally completed and settled and the approvals from the relevant authorities have been obtained.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR PRINCIPAL SUBSIDIARIES

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

No.	Names of Subsidiaries	Place of Incorporation	Date of Incorporation	Registered/Issued Capital	Shareholding of our Company	Main Scope of Business
1.	Orient Securities Futures	PRC	December 8, 1995	RMB1,000,000,000	100%	Commodities futures brokerage, financial futures brokerage, futures investment advisory, asset management and fund sale
2.	Orient Securities Capital Investment	PRC	February 8, 2010	RMB2,500,000,000	100%	Equity investment and debt investment to enterprises with its own capital or through establishing a private equity investment fund, providing equity investment and debt investment advisory service
3.	Orient Finance Hong Kong	Hong Kong	February 17, 2010	HK\$1,000,000,000	100%	Investment holding and provision of management service
4.	Orient Securities Asset Management	PRC	June 8, 2010	RMB300,000,000	100%	Securities asset management, publicly offered securities investment fund management
5.	Citi Orient	PRC	June 4, 2012	RMB800,000,000	66.67%	Securities (excluding treasury bonds, policy bank financial bonds, short-term financing bills and medium-term notes) underwriting and sponsorship
6.	Orient Securities Innovation Investment	PRC	November 19, 2012	RMB1,100,000,000	100%	Financial assets investment, securities investment, investment management and advisory

Detailed information of our other subsidiaries is set out in “Note 20: Investments in Subsidiaries” in “Appendix I – Accountant’s Report” in this document.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR CORPORATE STRUCTURE

Shenergy Group has been our single largest shareholder throughout the Track Record Period. The following table sets forth the shareholding structure of our Company as of the Latest Practicable Date:

Shareholders	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding (%)
Shenergy Group	A Shares	1,588,618,183	30.08%
Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司)	A Shares	295,784,854	5.60%
Wenhui Xinmin United Press Group (文匯新民聯合報業集團)	A Shares	265,828,211	5.03%
Other A Shares shareholders	A Shares	3,131,511,673	59.29%
Total		5,281,742,921	100%

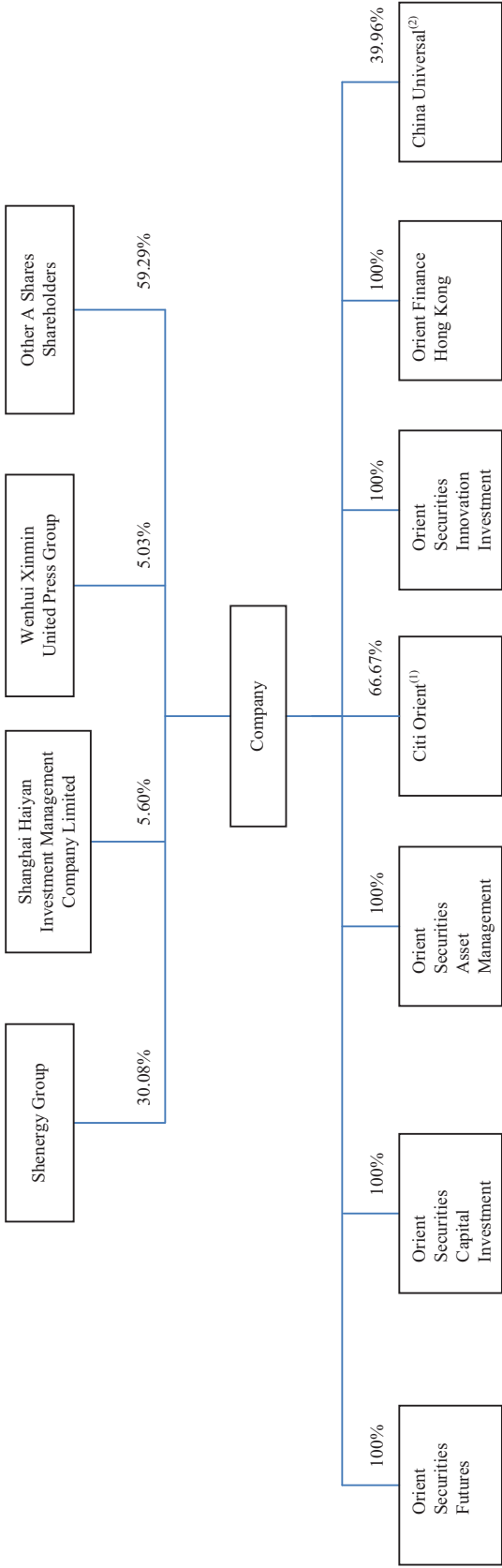
REASONS FOR THE [REDACTED]

Our Company is seeking a [REDACTED] on the Hong Kong Stock Exchange in order to provide further capital needed for the development and expansion of our Company’s business, and to further promote our Company’s strategy to become more internationalized, as described in more details in the section headed “Future Plans and Use of [REDACTED].”

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

SHAREHOLDING STRUCTURE PRIOR TO THE [REDACTED]

The following chart sets forth our simplified shareholding structure, principal subsidiaries and affiliates as of the Latest Practicable Date:

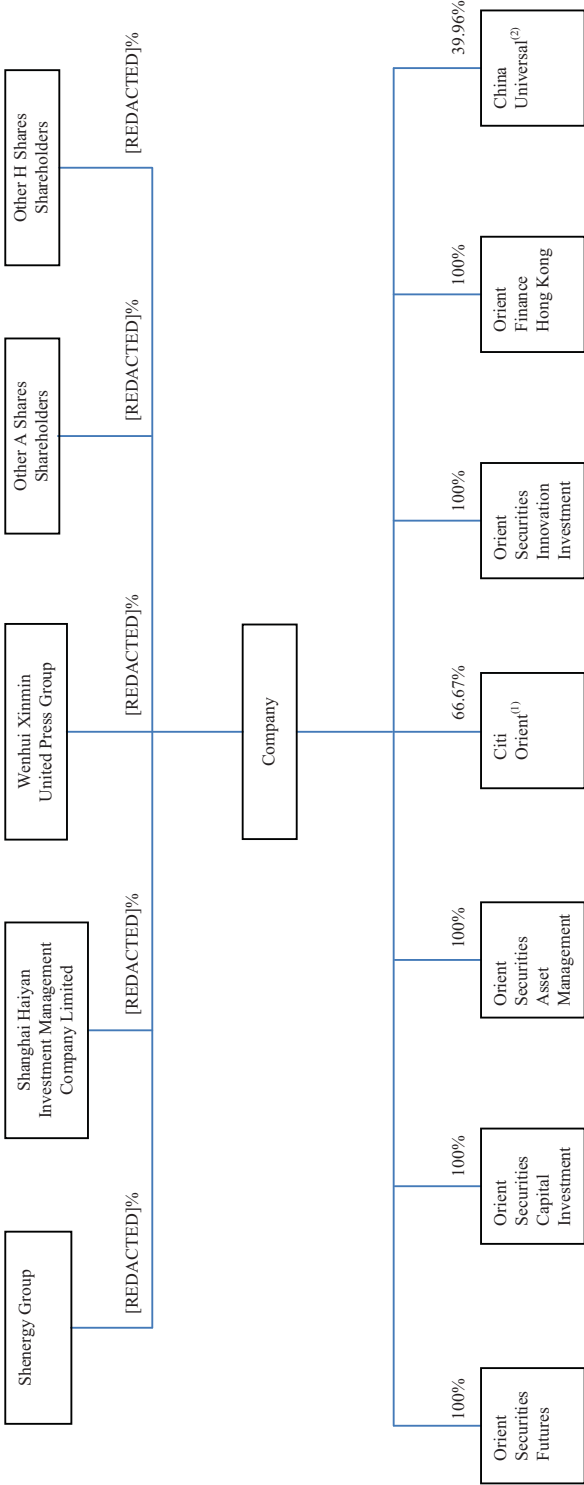


(1) The remaining 33.33% equity interest in Citi Orient is held by Citigroup Global Markets Asia Limited, an Independent Third Party (other than being a shareholder of Citi Orient).
(2) The remaining 60.04% equity interest in China Universal is held by Wenhui Xinmin United Press Group (文匯新民聯合報業集團), CES Finance Holdings Co., Ltd (東航金融有限公司), and Shanghai Jingjuin Investment Management Partners (上海青聚金投資管理合夥企業), each holding 22.53%, 22.53% and 14.98% equity interests, respectively. Wenhui Xinmin United Press Group (文匯新民聯合報業集團) is our shareholder, holding approximately 5.03% of our Shares as of the Latest Practicable Date, while CES Finance Holdings Co., Ltd (東航金融有限公司) and Shanghai Jingjuin Investment Management Partners (上海青聚金投資管理合夥企業) are Independent Third Parties.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

SHAREHOLDING STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE [REDACTED]

The following chart sets forth our shareholding structure, principal subsidiaries and affiliates immediately following the completion of the [REDACTED] on the assumption that: (1) the [REDACTED] is not exercised; (2) there is no change in shareholding held by each of our existing Shareholders subsequent to the Latest Practicable Date, other than the conversion and transfer of the state-owned A Shares to NSSF, immediately after completion of the [REDACTED] (see the section headed “Share Capital” for more details):



(1) The remaining 33.33% equity interest in Citi Orient is held by Citigroup Global Markets Asia Limited, an Independent Third Party (other than being a shareholder of Citi Orient).
(2) The remaining 60.04% equity interest in China Universal is held by Wenhui Xinmin United Press Group (文匯新民聯合報業集團), CES Finance Holdings Co., Ltd (東航金控有限責任公司), and Shanghai Jinguijin Investment Management Partners (上海聚金投資管理合夥企業), each holding 22.53%, 22.53% and 14.98% equity interests, respectively. Wenhui Xinmin United Press Group (文匯新民聯合報業集團) is our shareholder, holding approximately 5.03% of our Shares as of the Latest Practicable Date while CES Finance Holdings Co., Ltd (東航金控有限責任公司) and Shanghai Jinguijin Investment Management Partners (上海聚金投資管理合夥企業) are Independent Third Parties.

BUSINESS

OVERVIEW

We are a leading and fast-growing capital markets service provider in China with distinguished investment expertise. We have built successful investment management and trading as well as wealth management businesses by leveraging our strong foundation in Shanghai and nationwide network. According to Wind Info and financial information of listed companies, we ranked 10th by net assets and operating income, 9th by net profit and 12th by total assets as of and for the six months ended June 30, 2015 among PRC securities firms.

By capturing opportunities driven by business innovation and market development of the PRC securities industry, we have grown rapidly. We were successfully listed on the Shanghai Stock Exchange on March 23, 2015. As of and for the year ended December 31, 2015, our total assets and net assets amounted to RMB207.9 billion and RMB35.4 billion, respectively, and our total revenue and profit for the year amounted to RMB20.3 billion and RMB7.4 billion. As of December 31, 2015 we had 120 securities branches in all 31 provinces in China. In addition, we have established Orient Finance Hong Kong to spearhead our overseas business. Our extensive geographic presence enables us to serve a broad customer base. As of December 31, 2015, we had approximately 900,000 clients.

We provide comprehensive financial products and services to our clients. We have achieved industry-leading positions in many of our business segments through prudent operations and strong execution:

- **Wealth Management**

We engage in securities brokerage business and futures brokerage business, provide various securities financing services, such as margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions, and distribute various financial products issued by financial institutions. According to the Shanghai Stock Exchange and Shenzhen Stock Exchange, our trading volume of stocks and funds on behalf of our clients reached RMB6,511.4 billion in 2015. According to the same source, we ranked 9th among PRC securities firms by volume of collateralized stock repurchase transactions in 2015.

- **Investment Management and Trading**

- We provide our clients with asset management products. In addition, we conduct fund management business through China Universal, an associate in which we are the largest shareholder with 39.96% equity interest. We also engage in private equity investment business. For asset management business, we focus on developing discretionary management products with an objective to achieve absolute return for our clients. As of December 31, 2015, the total AUM of our asset management business was RMB107.9 billion, with discretionary management products accounting for 89.7% of the AUM. In addition, as of December 31, 2015, the total AUM of China Universal was RMB467.3 billion, with mutual funds accounting for 54.0% of the AUM; and
- We invest in equity, fixed income and derivatives for our own account. We have successfully launched NEEQ market-making business and alternative investment business. In addition, we provide securities research and prime brokerage services to institutional clients. In 2013, 2014 and 2015, the average return of our securities

BUSINESS

investment was 14.4%, 27.6% and 44.5%, respectively. According to the statistics of NEEQ Company, we ranked 3rd among all market makers in terms of the NEEQ market-making volume in 2015. According to China Foreign Exchange Trade System, we ranked in the top 5 among all the securities-firms trial market makers in China in terms of fixed income market-making volume in each month of 2015.

- **Investment Banking**

We provide a full spectrum of investment banking services including equity underwriting and sponsorship, debt underwriting and financial advisory services. Our investment banking business is conducted mainly through Citi Orient, a subsidiary in which we hold 66.67% equity interest, as well as our Fixed Income Department. As of December 31, 2015, Citi Orient had 17 IPOs pending CSRC review or listing, ranking 2nd in terms of the number of transactions in the pipeline among joint venture securities firms with international investors. According to Wind Info, Citi Orient ranked 1st by number of M&A transactions in 2015 among joint venture securities firms with international investors.

We have established a comprehensive risk management system and an effective internal control mechanism, which integrate our risk management, compliance management and internal control functions. During the Track Record Period, we have not been subject to any administrative penalties. We have received AA or A regulatory rating for six consecutive years (AA rating being the highest rating ever received by PRC securities firms) since 2010, when the CSRC started publishing classification evaluation results for securities firms.

BUSINESS

Our solid financial performance, stable operational management and strong innovation achievements have been widely recognized. We have won various awards, including among others:

Year	Award	Publication
2015	• China’s Best Securities Firm for Financing Service (中國最佳融資服務券商)	Securities Times (證券時報)
	• 2014 Golden Bull Securities Firm Collective Asset Manager Award (2014年度金牛券商集合資產管理人獎)	China Securities Journal (中國證券報)
	• China’s Best Securities Firm Brand in Innovation (中國最佳創新品牌證券公司)	21 st Century Business Herald (21世紀經濟報道)
	• Five-year Winning Award (2010-2014) in the Annual Conference for Private Equity Funds in China (中國私募基金年會五年優勝獎(2010-2014))	Sinolink Securities (國金證券)
	• 2015 China’s Best Equity Underwriting Team Award (2015中國區最佳股權承銷項目團隊獎)	Securities Times (證券時報)
	• Class A Professional Capability in M&A Financial Advisory (併購重組財務顧問執業能力專業評價A類)	Securities Association of China (證券業協會)
2014	• The Best Securities Firm in Asset Management Award (最佳資產管理券商獎)	Securities Times (證券時報)
	• 2013 Golden Bull Securities Firm Collective Asset Manager Award (2013年度金牛券商集合資產管理人獎)	China Securities Journal (中國證券報)
	• Five-year Winning Award (2009-2013) in the Annual Conference for Private Equity Funds in China (中國私募基金年會五年優勝獎(2009-2013))	Sinolink Securities (國金證券)
	• Class A Professional Capability in M&A Financial Advisory (併購重組財務顧問執業能力專業評價A類)	Securities Association of China (證券業協會)
	• 2014 China’s Best Underwriting Team for Bond Financing (2014中國區最佳債券融資承銷團隊)	Securities Times (證券時報)
2013	• Best Securities Firm in Asset Management Award (最佳資產管理券商獎)	Securities Times (證券時報)
	• 2012 Golden Bull Securities Firm Collective Asset Manager Award (2012年度金牛券商集合資產管理人獎)	China Securities Journal (中國證券報)

COMPETITIVE STRENGTHS

We are a leading and fast-growing capital markets service provider in China with distinguished investment expertise. We have built successful investment management and trading as well as wealth management businesses by leveraging our strong foundation in Shanghai and nationwide network. We believe the following strengths have contributed to our success and differentiate us from our competitors.

An industry-leading and fast-growing nationwide provider of capital markets services

Since our incorporation in 1997, we have grown rapidly from a regional securities firm in Shanghai into a leading capital markets service provider in China. According to Wind Info and financial information of listed companies, we ranked 10th by net assets and operating income, 9th by net profit and 12th by total assets as of and for the six months ended June 30, 2015 among PRC securities firms.

We are a fast-growing securities firm in China. From 2013 to 2015, our total revenue and profit for the year grew at a CAGR of 111.2% and 174.0%, respectively. Although we were not listed as one of top 20 securities firms by net assets for the year of 2002 when the SAC first published such a list,

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through rapid growth, we ranked 10th by net assets at the end of June 2015. From December 31, 2002 to December 31, 2015, our net assets increased over 30 times from RMB1.1 billion to RMB35.4 billion.

We are also an industry leader in terms of operating efficiency. According to Wind Info and financial information of listed companies, we ranked 14th by number of employees at the end of 2014 but ranked 1st by operating income per employee and profits per employee for the first half of 2015 (based on the employee number at the end of 2014).

We have fostered a result-driven corporate culture and market-oriented operating mechanism, which has laid a solid foundation for our future growth.

Strong investment management and trading capabilities with a proven track record

We have strong investment management and trading capabilities. Capitalizing on our core capabilities in value investing and risk management, we have maintained a leading position in asset management and securities investment and trading.

For our asset management business, we aim to help our clients achieve absolute return through active management strategies. Our wholly-owned subsidiary Orient Securities Asset Management is the first asset management company established by a securities firm in China, providing a full-spectrum of asset management products and services.

- As of December 31, 2015, total AUM of our asset management business amounted to approximately RMB107.9 billion, of which 89.7% was discretionary management funds, reflecting our strategy to achieve balance between size and quality of the AUM;
- As of December 31, 2015, we have 20 CAM schemes included in the Wind Info database for the latest three years, among which, three balanced mixed products ranked the top 3 among peers by performance and seven flexible allocation products ranked in the top 25% by performance; and
- According to Wind Info, the net asset value of “DFH Ruifeng”, “DFH Industrial Upgrade” and “DFH New Motion”, our mutual funds with a full-year track record by the end of 2015, increased 65.3%, 51.9% and 47.5% in 2015, respectively.

Our experienced asset management team is key to our strong performance over the past years. Since its establishment in 1998, our asset management team has experienced multiple market cycles and has accumulated extensive experience in investment management and risk control. Our performance has been recognized by numerous industry publications, including awards as the “Best Asset Management Securities Firm” (最佳資產管理) by the Securities Times (證券時報), China Securities Journal (中國證券報) and other publications. Furthermore, our asset management team is highly experienced and up to date on the latest industry and securities research and closely monitors market trends. As of December 31, 2015, Orient Securities Asset Management had 65 investment and research professionals with years of experience in the PRC securities industry.

In addition, we conduct fund management business through China Universal, an associate in which we are the largest shareholder with 39.96% equity interest. As of December 31, 2015, AUM of China Universal amounted to RMB467.3 billion, of which 54.0% was mutual funds. According to the Asset Management Association of China, China Universal ranked 10th among fund management

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companies in China by AUM of mutual funds. China Universal’s fund management business has achieved solid performance. According to Wind Info, the average growth of net asset value of actively managed equity mutual funds and all mutual funds managed by China Universal was 151.7% and 64.9% from 2013 to 2015, ranking 1st and 2nd, respectively, among the top 15 fund management companies by the AUM of mutual funds.

For our securities investment and trading business, we pursue a strategy of value investing and prudent risk management and have developed strong investment expertise which is well recognized in the industry. Our securities investment and trading business achieved steady growth during the Track Record Period and recorded an attractive average return. In 2013, 2014 and 2015, revenue from our securities sales and trading business amounted to RMB2.3 billion, RMB3.3 billion and RMB8.7 billion, respectively, representing a CAGR of 94.5%, and for the same years, the average return of our securities investment businesses were 14.4%, 27.6% and 44.5%, respectively.

Fast-growing wealth management business with a strong foundation in Shanghai

As one of the most important financial centers in the world, Shanghai has developed active and efficient financial and capital markets, attracting financial experts and other highly qualified professionals and become an important center for innovations in financial products and services. Shanghai had approximately 180,000 HNWI’s with personal wealth of over RMB10 million in 2015 and per capita disposable income of urban residents of RMB47,710 in 2014, each ranking 1st among all 31 provinces of China according to estimates in the Retirement Planning and Healthcare of Chinese HNWI’s. With growing personal wealth, the demands of investors for comprehensive financial services are also rising. We have leveraged our geographic advantage of Shanghai to actively develop our affluent and high-net-worth client base, drive business innovation, and expand our service offerings to meet the increasingly diversified wealth management needs:

- With Shanghai as the business center of our wealth management business, we adopted a strategy to gradually extend our network to the entire country. We utilized our branches as connecting points and channels for services, sales and information, through which we fully integrated our resources in various business segments to maximize efficiency and synergy. We aimed to build a comprehensive wealth management platform to efficiently provide value-added services to meet clients’ investment needs and increase client loyalty. As of December 31, 2015, we had 120 securities branches and 23 futures branches, and 899,300 securities brokerage clients and 27,100 futures brokerage clients, covering all 31 provinces in China; and
- We are vigorously expanding our high-end client base including affluent clients, high-net-worth clients and institutional and corporate clients and continually seeking to deliver superior customer services. The number of our affluent and high-net-worth clients of our securities brokerage business increased from 29,000 and 1,600 as of December 31, 2013 to 68,400 and 5,100 as of December 31, 2015, with their respective aggregate account balances increasing from RMB34.5 billion and RMB27.2 billion to RMB87.1 billion and RMB112.9 billion for the same period, representing a CAGR of 58.9% and 103.8%, respectively. In addition, the account balances of our institutional and corporate clients also increased significantly from RMB122.8 billion as of December 31, 2013 to RMB286.3 billion as of December 31, 2015, representing a CAGR of 52.7%. For high-end securities brokerage clients, we draw on resources among different departments in order to offer a full range of exclusive services. We launched the “Winner of the East” service

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brand to provide personalized services, offering our high-net-worth clients access to a dedicated experienced professional wealth management advisor and a wealth management director.

We are also expanding our products and service offerings in our wealth management business to include margin financing and securities lending, collateralized stock repurchase and repurchase agreement and financial products distribution businesses. According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as of December 31, 2015, we ranked 9th among PRC securities firms in terms of the size of collateralized stock repurchase business. Our collateralized stock repurchase business helps establish long-term relationships with high-end clients and provides opportunities to cross-sell other financial services such as IPO, NEEQ market-making business and transfer from NEEQ to stock exchanges in the future. The amount of financial products we distributed increased significantly from RMB13.3 billion in 2013 to RMB226.3 billion in 2015, representing a CAGR of 313.1%.

Strong track record of innovation resulting in revenue diversification and rapid growth

We have a corporate culture of encouraging innovations and focusing on new business opportunities that enable us to offer creative solutions to meet the increasing demands of clients for financial services. Our innovative businesses including various asset management products, alternative investment, NEEQ and OTC businesses, have resulted in revenue diversification and rapid growth and laid a solid foundation for future development.

Our business innovation capabilities, especially in developing a comprehensive platform, have enabled us to be a first-mover in a number of areas in the PRC:

- In 2014, we became one of the first qualified securities firms for Shanghai-Hong Kong Stock Connect pilot program;
- In 2014, we became one of the first qualified securities firms for market-making in the NEEQ;
- In 2013, we became the first securities firm qualified to carry out mutual fund management business;
- In 2010, Orient Securities Asset Management became the first asset management company approved to be established under a securities firm in the industry and in subsequent years also became one of the first asset management companies qualified as an investment manager to manage insurance funds; and
- In 2005, we became one of the first securities firms approved to carry out CAM business.

Our product innovation capabilities, especially in the asset management and investment banking business, are demonstrated in numerous examples:

- We have launched various pioneer products in the PRC among the domestic securities firms, such as one of the first large CAM schemes, the first small CAM scheme, the first discounted collective product, the first structured large CAM scheme, the first small loan asset securitization product, and the first mutual fund;

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- In March 2015, our “DFH Ruifeng” Fund was listed on the Shenzhen Stock Exchange, becoming the first listed mutual fund managed by a securities firm;
- We have launched a series of featured asset management products including Orient Securities Asset Management—Alibaba No. 1 to No. 10 SAM schemes, and Orient Securities Asset Management—Ant Small-loan (SZ) No. 1 asset-backed specialized schemes. They are the first domestic asset-backed securitization scheme backed by Internet small loans assets. Their senior tranche securities were listed on the Shenzhen Stock Exchange in September in 2013, the first in the industry;
- We underwrote the first asset-backed securities in the interbank market in the PRC as the lead underwriter with personal consumer loans as underlying asset, and the First Tranche of Consumer Credit Asset-backed Securities of Yongying in 2015, which was also the first credit assets-backed security with revolving purchase structure in China;
- China Universal, our associate, launched multiple innovative products in the industry, such as the first cash management account (“Baobao” type account) through Internet marketing in China launched in 2009; and
- We have developed numerous innovative structured notes products secured by various underlying asset classes for the OTC market and underwritten over 200 such notes offerings.

We believe our track record is built on our corporate culture of innovation, strong incentive mechanism and accountability system at our senior management level. We have also removed barriers across product teams, departments and business lines to promote innovation across the Group.

Highly market-oriented operating and management mechanism with strong synergies

Our diversified shareholding structure, sound corporate governance and shareholders’ trust and support enable us to establish an efficient, flexible and market-oriented decision-making process.

We strive to expand our business with a focus on profitability:

- We implement a broad wealth management strategy, utilizing capital-light branches to achieve scaled growth of high efficiency and at low cost;
- In our investment management business, we focus on management efficiency, and pursue absolute return and a balance between size and quality of our AUM; and
- Our securities research institute has achieved profitability by focusing on conducting in-depth research on selected fields and industries in order to provide our clients with value added services, instead of pursuing an all-inclusive industry coverage.

Leveraging our integrated full-license securities business platform, we are able to achieve business synergies among different departments and subsidiaries to meet the diversified needs of our clients throughout the business cycles:

- Our leading position in market-making business provides sufficient liquidity and support for our NEEQ securities recommendation and listing business. In 2015, we ranked 3rd among all market-makers in China in terms of NEEQ market-making volume, accounting for 9.7% market share;

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- We use our securities branches as our connecting-point of cross-selling for retail clients, consolidating resources of various departments and transforming the traditional branches into an integrated full-service financing platform. We have achieved highly efficient fund raising and distribution in our asset management business supported by the strong network of our securities brokerage branches; and
- For our financial advisory business, we provide corporate clients with extensive advisory services, including M&A advisory, restructuring, financing, NEEQ securities recommendation and listing. We are able to draw on the resources, expertise and capabilities across our various businesses and departments to deliver creative and value-added solutions to our clients. Our full service platform enables our client service teams to advise corporate clients through various stages of the life cycle of a company, from early stage venture financing, pre-IPO investments, debt financing, M&A advisory and execution to IPO and life as a public company.

Prudent, efficient and comprehensive risk management system

At the core of our risk management is the belief that “compliance creates value” and we foster a culture in which risk management is the responsibility of every employee. We have industry leading risk management capability. During the Track Record Period, we were not subject to any administrative penalties. Since the CSRC started publishing the classification evaluation results for securities firms in 2010, we have received AA or A regulatory rating for six consecutive years (AA being the highest rating ever received by PRC securities firms).

We focus on monitoring our risks and those of our clients. We have established a comprehensive risk management system and an effective internal control mechanism, which integrates risk management, compliance management and internal control functions, covering all businesses, departments, branches and staff and the entire process from decision-making, execution, supervision to seeking feedback.

We have established a dynamic net capital monitoring mechanism to comply with statutory net capital requirements and other regulatory standards. We closely monitor all risk control and liquidity indicators when conducting our business, particularly the investment and trading business as well as margin financing and securities lending businesses. During the Track Record Period, we were in compliance with regulatory requirements in terms of key net capital-based risk control indicators.

Our risk management system has been tested through different market cycles and been a strong foundation for our business development and innovation. Benefiting from our strong risk management capabilities, we are among the first PRC securities firms to obtain qualification for pilot businesses, such as Shanghai-Hong Kong Stock Connect.

Stable and experienced management team and high caliber professionals

Stable and experienced management and high caliber professionals are the key to our success. Our experienced senior management has a deep understanding of the development and characteristics of the securities and financial industries in China. Our core management team has over 10 years of management experience in the securities and financial industries on average. Our core senior management team has remained stable, ensuring the consistent implementation of our strategies. Mr. Pan Xinjun, our Chairman of the Board, and Mr. Jin Wenzhong, our President, have been with our

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Company for over 13 and 18 years, respectively. Following the management’s vision and foresight, we expanded into the international market with the establishment of Orient Finance Hong Kong. We also formed Citi Orient, a joint venture with Citigroup Global Markets Asia Limited, to leverage Citigroup’s international expertise and to further improve our professional standards.

We have a team of talented, high caliber and motivated professionals. As of December 31, 2015, approximately 59.0% of our employees in our main business departments (excluding securities branches) have master degrees or above. We are constantly improving the professional skills and expertise of our employees through online training, seminars, rotation and mentorship. We seek to retain and motivate our employees through incentive mechanism and provide them with numerous career development opportunities. Approximately 75.0% of our middle level management at or above the level of assistant general manager is promoted internally.

We highly value our corporate culture and strive to create a positive experience for our employees and promote our cultural cohesion. We participated in a survey jointly organized by Towers Watson and Fortune in 2009 and 2011 and were awarded “Excellent Employer—The Best Companies To Work For In China” for both years. We believe our distinctive corporate culture and internal cohesion enable us to attract and retain talent, which are instrumental to our future success.

BUSINESS STRATEGIES

We aim to become a leading provider of comprehensive financial services. We plan to achieve our goals through the following strategies.

Further enhance collaborative operations and client-oriented comprehensive financial service platform to provide one-stop services

To implement the group strategy, we will further strengthen the collaboration between our various business segments, and increase client service capability to build a one-stop integrated financial service platform. We will continue to optimize our organizational structure and improve our business process, management process and resource allocation mechanism to strengthen client sharing and resources integration.

We will continue to enhance our capability in client development. Specifically, we intend to focus on expanding our high-net-worth as well as institutional and corporate client base. We strive to provide a full range of client services and continue to improve our client management system:

- For strategically important clients, we will enhance our client services led by senior management and supported by various business teams. For institutional and corporate clients, we will establish a dedicated sales system integrating our institutional and corporate sales teams from different business segments, with relevant client managers in securities branches acting as contacting points. For high-net-worth clients, we will strive to provide distinct comprehensive financial services through business collaboration. For retail clients, we will focus on developing mobile Internet finance and optimizing client development and the sales network in our O2O business with innovative offerings. In addition, we will continue to provide innovative value-added services and improve client service ability in order to attract quality clients and strengthen client loyalty; and
- We will continue to improve a unified client information and relationship management platform, and continually increase the size of our client manager team and wealth advisory

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team and improve their professional abilities to make in-depth analysis of clients’ needs and identify business opportunities so as to provide diversified and tailor-made services to our clients.

Further strengthen our wealth management business to build up our core competitiveness

Wealth management is one of our core businesses, an important source of revenue growth and the basis to develop other businesses. We will continue to transform our wealth management business and develop capital intermediary business with a focus on the collateralized stock repurchase. To achieve this, we intend to adopt the following initiatives:

- To strengthen our integrated wealth management system with closer cooperation among different business segments to provide clients with comprehensive financial services, and further expand the functions of our securities branches as the front office to comprehensively cross-sell various businesses including securities financing, investment banking and asset management;
- To accelerate the transformation of traditional securities branches and optimize the branch network. We plan to rapidly and flexibly increase the number of securities branches for wealth management with the support of “Orient Cloud” platform;
- To establish a product center offering both in-house developed as well as externally sourced products in order to provide a full-spectrum, and diversified financial product database to effectively cater to the needs of our clients, and develop the client service brand; and
- To enhance the client classification management system, we will further cultivate an investment consultant team and an institutional and corporate sales team with strong professional capabilities. We plan to achieve a full service coverage for high-end clients, with a focus on high-net worth and institutional and corporate clients.

Leverage our expertise in investment management and trading, strengthen our active asset management business and build a leading investment management brand

We will continue to take advantage of our strengths in investment management and trading, expand our product offering for asset management and enhance our securities investment and trading capability. Through these efforts, we aim to build a leading investment management brand. Our specific business plans include:

- We will focus on active asset management business. We will continue to diversify and expand our asset management product portfolio. In particular, we will enhance innovation in the mutual funds business. We will also continue to expand fixed income mutual funds and asset securitization products, and continually diversify and improve our product lines built on our strengths in traditional equity fund products;
- In terms of the clients and marketing channels, we will continue to leverage our brand and diversify our institutional and corporate client base, such as insurance, trusts, large-scale enterprises and optimize the structure of assets under management; and
- We will gradually expand the variety and scope of investment and trading products across different types and markets, covering a variety of securities related financial products on stock exchanges or over the counter.

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While maintaining our existing competitive strengths in equity, fixed income and derivatives trading securities investment business, we will continue to follow prudent risk management and trading disciplines and achieve revenue growth within our risk tolerance level.

Continue to innovate and expand our international business for future growth

We will continue to build our corporate culture that encourages innovation, and strive to make new product and service offerings a driving force of our revenue and profit growth. Specifically, we plan to:

- Internet platform: We plan to build a comprehensive “one-stop” Internet financial product platform through our unified account system. Meanwhile, we seek to capitalize on the mobile Internet trend to offer personalized services through mobile devices;
- OTC: We will focus on the services for high-net-worth clients and institutional and corporate clients, and utilize our strengths in investment research, product design and market-making through product and service innovation, to build a differentiated OTC business;
- Financial derivatives: We will increase the trading in derivatives in line with our market-neutral strategy, expand the scale of arbitrage trading, diversify revenue sources and promote the innovation in OTC derivatives; and
- FICC: We will continue to build an FICC business platform that meets international standards, expand into areas such as foreign exchange, gold, commodities, and corresponding derivatives, structured products and other instruments in order to form a complete FICC business.

We will also focus on the internationalization of our business. We will continue to seek opportunities to expand our overseas business, including cross-border M&As. We will expand our relationship with, and leverage the worldwide business network of, Citigroup, the foreign shareholder of Citi Orient, deepen our cooperation with them and provide diversified domestic and international investment banking service for our clients.

Further strengthen prudent risk management and lay a solid foundation for business development

We will continually optimize and improve our comprehensive risk management capability in order to integrate risk management, compliance management and internal control functions. We intend to do this by pursuing the following:

- We will further optimize our internally developed risk management operation mechanism, boost each level’s risk management function, and implement the comprehensive risk management mechanism with full coverage, all-staff participation and whole process control;
- We will enhance our management on portfolio risks by focusing on net capital and risk exposure, coordinate the key elements such as capital, size, risk exposure and leverage, and optimize the asset and liability allocation and risk control management mechanism;
- We will enhance the application of information technologies in compliance and risk management, optimize the capabilities of identifying and evaluating potential risks and the

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dynamic risk monitoring models by applying international risk management tools and establishing risk database and quantitative risk indicators and evaluation models, and enhance the warning and control capabilities for credit risks, market risks, liquidity risks and operation risks; and

- In terms of the risk management associated with innovative businesses, we will track the whole process such as framework design, reporting and business execution, and focus our efforts on enhancing the compliance and risk examination of new types of businesses.

Further optimize our system for talent development and performance evaluation and enhance corporate culture

Talented, high caliber and motivated professionals with strong work ethics, together with a team work and collaboration oriented corporate culture, are key to our success. We intend to adopt the following measures:

- We will continue to optimize the structure of our talent pool and build our multi-layer talent development system including internal promotion, recruitment of high caliber professionals for our core and innovative businesses, and leveraging our brand to attract talent with leadership and international vision;
- We will further enhance our staff training and expand career development program so as to achieve the mutual development of the staff’s personal abilities and our business;
- We plan to further improve our market-oriented performance evaluation and incentive mechanism, optimize the business structure and adopt equity incentive schemes to maintain our competitiveness and improve staff loyalty; and
- We will continue to enhance corporate culture, staff cohesion and corporate competitiveness by cultivating a family-like environment.

OUR BUSINESS

Our major business segments include wealth management, investment management and trading, investment banking, as well as headquarters and others. Investment management and trading includes investment management as well as securities sales and trading. The following table shows the composition of each business segment:

Wealth Management	Investment Management and Trading		Investment Banking ¹	Headquarters and Others
	Investment Management	Securities Sales and Trading		
• Securities brokerage • Futures brokerage • Securities financing	• Asset management • Fund management⁽²⁾ • Private equity investment	• Equity securities investment and trading • Fixed income investment and trading • Derivatives trading • NEEQ market-making • Alternative investment • Securities research	• Equity underwriting and sponsorship • Debt underwriting • Financial advisory⁽³⁾	• Treasury business and others • Overseas business

Notes:

(1) The investment banking business is mainly conducted by our subsidiary Citi Orient, in which we hold 66.67% equity interest.

(2) We engage in fund management business mainly through China Universal, an associate in which we are the largest shareholder with 39.96% equity interest.

(3) Includes M&A and NEEQ securities recommendation and listing business, asset-backed securitization and others.

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The following table sets forth the breakdown of our total revenue by business segment for the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
	(In millions, except percentages)					
Wealth management	1,637.8	36.0	2,970.5	38.0	7,813.7	38.6
Investment management ⁽¹⁾	202.1	4.5	319.0	4.1	1,755.8	8.7
Securities sales and trading	2,303.9	50.8	3,318.1	42.5	8,713.9	43.0
Investment banking	260.1	5.7	512.7	6.6	920.9	4.5
Headquarters and others	244.8	5.4	865.6	11.0	1,424.7	7.0
Inter-segment elimination	(109.1)	(2.4)	(173.5)	(2.2)	(376.4)	(1.8)
Total	4,539.6	100.0	7,812.4	100.0	20,252.6	100.0

Note:

(1) Excludes the revenue of China Universal, an associate in which we hold 39.96% equity interest and do not consolidate into our financial statements.

Wealth Management

Our wealth management business consists of securities brokerage, futures brokerage and securities financing including margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions. We seek to build a full-fledged diversified financial platform and continually optimize our client structure and revenue mix. We focus on catering to the needs of our clients in order to provide them with customized value-added services. We have pursued a capital-light expansion strategy by opening capital-light branches with low cost and high efficiency and expanding our online service platform. In 2013, 2014 and 2015, revenue from our wealth management business was RMB1,637.8 million, RMB2,970.5 million and RMB7,813.7 million, respectively, accounting for 36.0%, 38.0% and 38.6% of total revenue, respectively. The revenue from wealth management business mainly consists of commission and fee income as well as interest income. The following table sets forth the breakdown of the revenue derived from our wealth management business for the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
	(in millions, except percentages)					
Securities brokerage	1,177.5	71.9	1,576.6	53.1	4,219.9	54.0
Futures brokerage	215.1	13.1	277.5	9.3	395.9	5.1
Securities financing	245.2	15.0	1,116.4	37.6	3,197.9	40.9
Total	1,637.8	100.0	2,970.5	100.0	7,813.7	100.0

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Marketing Platform and Branch Network

We conduct our wealth management business and develop and retain clients through our marketing platform and branch network.

During the Track Record Period, our network of securities branches expanded considerably. In 2014 and 2015, we established 29 and 23 securities branches, respectively. In 2015, we achieved full strategic coverage of all provinces in China with our securities branches. As of December 31, 2015, we had 120 securities branches in total, including 61 Type-A branches, 32 Type-B branches and 27 Type-C branches distributed in 31 provinces and 58 cities across the country. The following diagram shows our securities branches network as of December 31, 2015:



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Most of our newly-established securities branches are Type-B and Type-C capital-light branches, which mainly aim to deepen our client coverage. They provide trading services to clients with relatively simplified set of equipments, less space, lower setup cost and fewer on-site staff and enable us to achieve rapid network coverage with relatively low capital expenditure. In order to further accelerate the expansion of Type-B and Type-C branches, we established the “Orient Cloud” platform to process operating data and centralize management of key middle- and back-office functions to our headquarters. Through the “Orient Cloud” platform, our branches no longer need to store or process the operating data at their own terminals, which significantly reduced setup cost and improved operating efficiency. The following table shows the breakdown of the number of our securities branches by type as of the dates indicated:

	As of December 31,		
	2013	2014	2015
Type-A branch	61	61	61
Type-B branch	5	13	32
Type-C branch	2	23	27
Total	68	97	120

In the future, we plan to fully leverage capital-light branches to implement our broad wealth management strategy, explore and integrate local resources, cooperate across departments to explore business opportunities, so as to achieve growth with higher efficiency and lower costs. We plan to further optimize the marketing functions and the ability to provide comprehensive services of our branches, and explore the growth potential of our branches in brokerage, asset management, securities financing and investment banking businesses. We strive to enhance our ability to provide integrated, diversified and customized financial services to different clients.

In order to enhance the competitiveness of our securities branches, we organize trainings on wealth management skill, business fundamentals and specific topics of securities branches for front office staff on a routine basis. We have implemented a one-stop service program for our sales team, and built our wealth advisory team integrating our sales, investment and advisory services. Wealth advisors provide professional advisory services to clients on wealth management products selection based on the risk appetite and asset size of the clients, and assist clients to manage their wealth, in order to best achieve stable growth targets. In addition, we also acquire clients through contracted external securities brokers and share the revenue derived from such clients with these securities brokers. The number of client managers, wealth advisors and contracted securities brokers is shown in the following table:

	As of December 31,		
	2013	2014	2015
Client managers	582	510	807
Wealth advisors	114	172	218
Securities brokers ⁽¹⁾	562	625	799
Total	1,258	1,307	1,824

Note:

(1) Securities brokers are not our employees, and we enter into agency contracts with them. According to the PRC laws, securities brokers can only contract with one securities firm.

In addition to securities branches, we also established futures branches to promote the development of futures business. As of December 31, 2015, we had 23 futures branches across 17

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provinces in China. As of December 31, 2015, we had 61 securities branches approved to engage in futures IB business, through which we can recommend potential futures clients to Orient Securities Futures to achieve cross selling.

Online Trading Platform

We have built up an online trading platform and regularly upgrade it to transfer our standardized businesses online. Our clients can open accounts online through Internet and mobile devices. They can conduct various wealth management businesses via such accounts, including online stock and fund trading, OTC trading and Southbound Trading Link service. In 2014 and 2015, the trading volume of stocks and funds completed through Internet and mobile devices accounted for 84.0% and 87.0% of our total trading volume of stocks and funds for the corresponding periods, respectively. In 2014 and 2015, the number of clients who had carried out transactions through the Internet and mobile phones accounted for 84.6% and 91.1% of the total number of our stock and fund brokerage clients, respectively. In 2014 and 2015, the number of accounts opened online accounted for 14.6% and 52.9% respectively of the total number of accounts opened during the corresponding periods. We believe the online trading platform can assist our existing securities branches to improve trading convenience and clients’ experience, provide more diversified products for clients, and execute more targeted and effective marketing.

Securities Brokerage Business

Our securities brokerage business mainly focuses on the trading of securities on behalf of clients. We trade stocks, funds and bonds on behalf of our clients according to the instructions given to the authorized branches. In 2013, 2014 and 2015, revenue from our securities brokerage business was RMB1,177.5 million, RMB1,576.6 million and RMB4,219.9 million, respectively. According to the Shanghai Stock Exchange and Shenzhen Stock Exchange, the aggregate trading volume of securities on behalf of our clients in 2015 was RMB12,070.0 billion. The types of securities traded on behalf of clients include:

- Stocks: Stocks of companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, and the stocks of companies listed on the Hong Kong Stock Exchange traded through the Southbound Trading Link Services;
- Funds: Listed funds including mutual funds, closed-end funds and ETFs; and
- Bonds: Bonds listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, such as treasury bonds, corporate bonds, enterprise bonds and convertible bonds, including bond repurchase business.

The following table sets forth the trading volume of our securities brokerage business by product type for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Stocks and funds:			
Stocks	1,366,823.4	1,978,404.2	6,389,536.3
Funds	26,713.7	36,429.1	121,817.0
Subtotal	1,393,537.1	2,014,833.3	6,511,353.3
Bonds	3,321,576.7	3,716,093.5	5,558,687.2
Total	4,715,113.8	5,730,926.8	12,070,040.5

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In 2013, 2014 and 2015, the average stock and fund brokerage commission rate of our securities branches was 7.7 bps, 6.9 bps, and 5.4 bps, respectively.

We were one of the first companies in China to obtain the qualification to pilot the Southbound Trading Link business of Shanghai-Hong Kong Stock Connect in October 2014. We officially launched the Southbound Trading Link business in November 2014. As of December 31, 2015, our clients had opened 9,600 Southbound Trading Link accounts, accounting for approximately 12.9% of the total number of clients with net assets of over RMB500,000. Among these accounts, there were 2,100 active clients that had conducted transactions through us, representing 22.2% of the total number of Southbound Trading Link clients. As of December 31, 2015, the accumulated trading volume of our Southbound Trading Link business was RMB6,359.0 million, with an average commission rate of approximately 10 bps. We believe that, as the connection between Shanghai and Hong Kong deepens further, along with the proposed launch of the Shenzhen-Hong Kong Stock Connect business in the future, the Southbound Trading Link business has strong growth potential.

We mainly engage in trading of securities on behalf of clients in the PRC. After the sharp rise during the second half of 2014 to mid-June 2015, the A share market experienced considerable volatility, which affected our trading of securities on behalf of clients to some extent. While the PRC government has introduced a number of market stabilizing measures to provide support to clients’ brokerage trading volume, such as PBOC’s provision of liquidity support, and the reduction of transaction fees by the Shanghai Stock Exchange and the Shenzhen Stock Exchange, market uncertainties still exist. Please refer to “Risk Factors—Risks Relating to Our Business and Industry—General economic and market conditions could adversely affect our business.”

In addition, we are authorized to distribute various financial products issued by financial institutions including mutual fund management companies, securities firms, trust companies and private equity fund management companies as well as our subsidiaries. As of December 31, 2015, we distributed 986 financial products through our branches, the Internet and mobile platforms.

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

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Mutual funds	1,811.7	70,720.8	216,752.9
CAM products	10,633.5	3,159.7	1,359.9
Trust schemes	81.6	296.2	509.2
Private equity fund products	—	8.8	1,064.3
Other financial products	735.1	2,215.2	6,585.5
Total	13,261.9	76,400.7	226,271.8

We have developed a financial product evaluation system and procedures to perform detailed product analysis and risk assessment of the financial products we distribute. We recommend and distribute to clients financial products in line with their risk tolerances.

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Clients and services of securities brokerage business

The clients of our securities brokerage business are mainly categorized into retail, institutional and corporate clients:

- **Retail clients:** we categorize our retail clients based on their account balances, including ordinary clients, affluent clients and high-net-worth clients. As of December 31, 2015, we had 895,600 retail clients in our securities brokerage business, among which, 5,100 are high-net-worth clients with account balance of RMB5.0 million and above, and 68,400 are affluent clients with account balance of RMB0.5 million to RMB5.0 million.
- **Institutional and corporate clients:** our institutional and corporate clients include private equity fund management companies, mutual fund management companies, listed companies, financial institutions and other corporates. Financial institutions include banks, insurance and trust companies. As of December 31, 2015, we had 3,700 institutional and corporate clients in our securities brokerage business.

The following table sets forth the data of our securities brokerage business clients by client type as of the indicated dates:

	As of December 31,					
	2013		2014		2015	
	(in thousands)	%	(in thousands)	%	(in thousands)	%
Retail clients:						
Ordinary clients	608.7	95.2	633.4	92.4	822.1	91.8
Affluent clients	29.0	4.5	48.8	7.1	68.4	7.6
High-net-worth clients	1.6	0.3	3.1	0.5	5.1	0.6
Subtotal	639.3	100.0	685.3	100.0	895.6	100.0
Institutional and corporate clients:	2.8		3.1		3.7	
Total	642.1		688.4		899.3	

The following table sets forth the account balances of our securities brokerage business clients by client type as of the dates indicated:

	As of December 31,					
	2013		2014		2015	
	(RMB)	%	(RMB)	%	(RMB)	%
(in millions, except percentages)						
Retail clients:						
Ordinary clients	31,177.1	33.5	37,780.7	24.3	48,048.6	19.4
Affluent clients	34,528.3	37.2	60,761.1	39.0	87,148.3	35.1
High-net-worth clients	27,172.3	29.3	57,205.8	36.7	112,882.6	45.5
Subtotal	92,877.7	100.0	155,747.6	100.0	248,079.5	100.0
Institutional and corporate clients:	122,833.4		216,546.6		286,328.5	
Total	215,711.1		372,294.2		534,408.0	

With the implementation of the “one-person-multiple-account” policy and the development of Internet finance, we anticipate that the competition for securities brokerage business will increase in

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the future, and the competitive landscape of the industry will further intensify. We believe that the core competitiveness of a securities firm is to focus on client service, provide various advisory services and products, and maintain and grow client wealth. We plan to transform our securities brokerage business from the commission-only model to diversified service fee model, improve the value of our services and explore alternative sources of revenue.

We strive to meet the different needs of clients and provide them with tailored services in order to improve client satisfaction. Through online social media channel, our branches try to establish close relationship with clients, understand their investment needs in real time and provide innovative services in line with scientific and technological development. Through client advisory services, we customize different product mix across different holding periods and risk appetites in order to meet different clients' preferences for asset allocation. We continually optimize our client value analysis system and improve the quality of information we collect from our clients.

We place great emphasis on our core clients, communicating with them and providing them investment guidance regularly. For high-end clients of our brokerage business including high-net-worth clients and institutional and corporate clients, we provide comprehensive proprietary services by enhancing the efficient collaboration among all departments, building up our corporate brand and enhancing client adhesiveness. We regularly send various advisory products such as Winners' Daily (Platinum Edition) and the monthly Orient Winners to high-end clients via mail, text messaging and APP notifications, so as to provide them with comprehensive advisory services. We have opened WeChat group accounts to serve high-end clients and share the latest views of our research analysts. We hold meetings on topics such as constructing stock portfolios, formulating investment strategies, analyzing industries and stock options. We also provide high-end clients with guidance and information on investment through investment salons. As for private equity funds clients, we provide prime brokerage services including fund formation, product distribution, structured financing, liquidation valuation and asset custody.

Futures Brokerage Business

We mainly engage in commodity futures brokerage and financial futures brokerage through our subsidiary Orient Securities Futures. Orient Securities Futures is a member of Shanghai Futures Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange and China Financial Futures Exchange. As of December 31, 2015, our futures products consist of 45 commodity futures including agricultural products, gold and silver, chemical products and metals, and five financial futures, namely SSE 50, CSI 500, CSI 300, five-year and ten-year treasury bond futures.

In 2013, 2014 and 2015, revenue of our futures brokerage business was RMB215.1 million, RMB277.5 million and RMB395.9 million, respectively. In 2013, 2014 and 2015, our average futures brokerage commission rate was 0.11 bps, 0.06 bps, and 0.04 bps, respectively.

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The following table sets forth the relevant data of the futures brokerage business for the periods indicated:

	As of or for the year ended December 31,		
	2013	2014	2015
Clients:			
Number (in thousands)	16.1	20.1	27.1
Account balance of the clients (RMB in millions)	3,567.6	6,076.6	20,304.7
Daily average account balance of clients (RMB in millions)	3,364.1	3,948.4	10,983.0
Trading turnover (in million lots):			
Commodity futures	34.8	136.6	294.0
Financial futures	9.1	9.0	17.4
Total	43.9	145.6	311.4
Trading volume (RMB in billions):			
Commodity futures	2,288.3	6,588.0	12,623.5
Financial futures	6,627.7	6,781.0	21,192.9
Total	8,916.0	13,369.0	33,816.4

Orient Securities Futures capitalizes on information technology to differentiate itself and has put great efforts on the development of IT technologies and the construction of server room to provide a leading basic trading environment for clients. The trading speed of its platform increased significantly, attracting a group of market makers and program trading teams to become our clients. Orient Securities Futures received A regulatory rating among futures companies for four consecutive years from 2012-2015 from the CSRC, which reflected the strong risk control capability and the market competitiveness of Orient Securities Futures.

The outstanding track record of Orient Securities Futures was widely recognized by the industry. It has received numerous awards, including the following in 2015:

- Outstanding Member—Gold Prize, Treasury Bond Futures Market Cultivation Award, and Product Innovation Award by China Financial Futures Exchange in 2015;
- Outstanding Member Award in Trading Volume, Outstanding Member Award for Great Progress in Trading, Outstanding Member Award in Industrial Services, Outstanding Member Award in Copper Industry Services, Outstanding Member Award in Zinc and Lead Industry Services, Outstanding Member Award in Steel Industry Services, and Outstanding Member Award in Natural Rubber Industry Services by Shanghai Futures Exchange in 2015;
- 2014 Outstanding Member, The Best Institutional Service Award, and The Best Institutional Expansion Award by Dalian Commodity Exchange in 2015; and
- 2014 Outstanding Member in Market Development and Outstanding Member in Market Growth by Zhengzhou Commodity Exchange in 2015.

Securities Financing Business

Our securities financing business consists of margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions. In 2013, 2014, and 2015, revenue from our securities financing business was RMB245.2 million, RMB1,116.4 million and RMB3,197.9 million, respectively.

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Margin financing and securities lending

We were among the second batch of companies in China qualified to engage in margin financing and securities lending business in June 2010. Margin financing and securities lending transaction refers to a transaction in which the investor provides a qualified securities firm with collateral, to borrow funds and purchase securities (margin financing transaction) or borrow securities and sell them (securities lending transaction). Through margin financing and securities lending business, we help our clients to utilize the financial leverage and capture potential opportunities in the market with a view to enhancing the investment returns for clients. Margin financing and securities lending business is a major component of our securities financing business. It is capital intensive and involves exposure to relevant credit risks. Please refer to “Risk Factors—Risks Relating to Our Business and Industry—We may suffer significant losses from our credit exposure.”

Since 2013 and especially after we successfully completed our A share listing and replenished net capital in 2015, we have increased our efforts in developing margin financing and securities lending business under prudent risk management. Margin financing and securities lending business has gradually become our important source of revenue and profit. As of December 31, 2013, 2014 and 2015, our margin financing and securities lending balance was RMB2,801.4 million, RMB9,777.0 million and RMB13,571.0 million, respectively. In 2013, 2014 and 2015, revenue from margin financing and securities lending was RMB192.7 million, RMB391.4 million and RMB1,389.9 million, respectively. The revenue from margin financing and securities lending is mainly interest income.

We perform a thorough evaluation process before onboarding margin financing and securities lending clients. We assess a range of factors to determine whether such clients are qualified to open a margin financing and securities lending account, including clients’ income, asset profile, experience in securities investment, risk appetite, and integrity and compliance records. For new clients of our margin financing and securities lending business, the minimum daily average balance of their securities account during the latest 20 trading days shall be no less than RMB500,000. Additionally, they shall have at least six months of stock trading experience at the time of application. As of December 31, 2015, among our existing securities brokerage clients, the total number of clients who had met our standards and were qualified to open margin financing and securities lending accounts was approximately 55,600, among which, 24,500 clients had opened accounts.

As of December 31, 2015, 923 stocks and 25 ETFs were qualified for margin financing and securities lending in China. After our selection, we provide margin financing service for 884 qualified stocks and 19 qualified ETFs, and provide securities lending service for 668 qualified stocks and 18 qualified ETFs. The agreements we enter into with margin financing and securities lending clients set out provisions such as the terms, margin financing rates and securities lending rates. In 2013, 2014 and 2015, the average annualized interest rate of our margin financing business was 8.5%, 8.5% and 8.3%, and the average annualized fee rate of our securities lending business was 8.6%, 8.6% and 8.4%, respectively.

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

	As of or for the year ended December 31,		
	2013	2014	2015
Number of accounts (in thousands)	9.1	15.3	24.5
Balance (RMB in millions):			
Margin financing (Balance of loans lent out)	2,793.0	9,735.3	13,532.1
Securities lending (Value of securities lent out)	8.4	41.7	38.9
Total	2,801.4	9,777.0	13,571.0
Overall collateral ratio at the end of the period	260.1%	258.6%	290.4%
Trading volume (RMB in millions):			
Margin financing	35,019.1	97,456.1	429,603.2
Securities lending	2,256.6	4,253.6	8,108.4
Total	37,275.7	101,709.7	437,711.6
Income (RMB in millions):			
Interest income	192.7	391.4	1,389.9

Note:

(1) Overall collateral ratio refers to the ratio of the fair value of the collateral, including cash and securities held by the clients, to the balance of margin accounts of the clients. Balance of margin accounts represents the sum of the receivables and the securities lent out in the margin accounts.

We require our margin financing and securities lending clients to provide collateral in the form of securities listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. We use different discount rates to determine the value of these securities and monitor such discount rates on a real-time basis and make adjustments based on various factors to manage credit risk, such as market trends and volatility, percentage of price increase of individual stocks and material negative events. As of December 31, 2013, 2014 and 2015, the fair value of the collateral we received from clients who have margin financing and securities lending liabilities to us under margin financing and securities lending business was RMB7,286.6 million, RMB25,278.4 million and RMB39,408.6 million, respectively. The following table sets forth the maximum collateral discount rates applicable for various types of securities in our margin financing and securities lending business as of December 31, 2015:

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

When determining the credit ratings of the clients and credit lines to be granted, we assess the factors like income, asset profile and profitability and pay special attention to the profitability and transaction activity of the clients. Clients who apply for margin financing and securities lending service for the first time must do so on site. We also have established a risk management warning system to monitor the value of the collateral provided by the clients and the collateral ratio in real time. We provide risk warnings to our clients in the event that relevant risks intensify so as to control their leverage ratio and strive to protect their interests. Please refer to “—Risk Management and Internal Control Measures of Major Businesses—Wealth Management Business—Securities Financing Business—Margin Financing and Securities Lending Business.” Before the A share market experienced considerable volatility in June 2015, we had required our branches several times to alert

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our clients about the market risks. Due to our strict implementation of risk control measures and close communication with our clients, only eight minor liquidation incidents occurred. Most of the liquidation incidents took place on July 8, 2015 and July 9, 2015, mainly attributable to extreme circumstances where the market declined significantly, subject securities reached their daily downside limit in consecutive trading days, and clients were not able to sell their securities. The total amount of the eight margin financing and securities lending accounts on which we enforced liquidation was approximately RMB11 million, representing 0.06% of the balance of our margin financing and securities lending business. Since we had communicated well with our clients before the liquidation, we did not receive any complaints and were not involved in any dispute due to the forced liquidations. Other than the circumstances mentioned above, in 2013, 2014 and 2015, there had been no forced liquidation incident resulting from collateral inadequacy. As of December 31, 2015, the overall collateral ratio of our margin financing and securities lending business was 290.4%.

Affected by the A share market volatility since June 2015 and increased deleveraging, the balance of our margin financing and securities lending business decreased from RMB26,406.8 million as of June 30, 2015 to RMB13,571.0 million as of December 31, 2015. The following table sets forth the sensitivity analysis of the impact of the changes in the value of collateral on the collateral ratio of the margin financing and securities lending business as of December 31, 2015 and the Latest Practicable Date:

	As of December 31, 2015			As of the Latest Practicable Date		
	Actual	20% decrease in market value	40% decrease in market value	Actual	20% decrease in market value	40% decrease in market value
Balance of margin financing and securities lending business (RMB in millions)	13,571.0	13,571.0	13,571.0	9,857.0	9,857.0	9,857.0
Fair value of collateral (RMB in millions)	39,408.6	31,526.9	23,645.2	28,009.8	22,407.8	16,805.9
Overall collateral ratio ⁽¹⁾	290.4%	232.3%	174.2%	284.2%	227.3%	170.5%

Note:

(1) Overall collateral ratio refers to the ratio of the fair value of the collateral, including cash and securities held by the clients, to the balance of margin accounts. Balance of margin accounts represents the sum of the receivables and the securities lent out in the margin accounts.

Since the commencement of margin financing and securities lending business, we have complied with regulatory requirements on the margin financing and securities lending business in all material aspects, including requirements on the minimum funds required of clients applying for an account, the trading history and the extension of margin financing and securities lending agreements. Our various risk management measures ensured the smooth operation of our margin financing and securities lending business. We were not subject to any penalties from the regulatory authorities since the commencement of this business. Along with the changes in the development of the market, we will further expand our existing margin financing and securities lending business on the basis of prudent risk control and comprehensive client service. We will focus on deepening big data analysis based on client needs, analyzing and monitoring clients’ investment behaviors and positions as well as improving our management of clients’ investment risks. We will also provide clients with specific warnings and help diversify risks by intensifying our efforts on analysis of the risk exposures of subject stocks and paying close attention to indicators such as concentration level of clients’ overall and individual stock investment. Through these efforts, we will try to improve our service quality and protect clients’ interests.

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Collateralized stock repurchase and repurchase agreement transactions

Collateralized stock repurchase transaction business refers to a transaction in which qualified borrowers pledge their shares or other securities as collateral to obtain financing from a qualified lender and agree to repay the funds on a future date to release the pledge. We started research, planning and preparation for the collateralized stock repurchase transaction business in the beginning of 2013. After the Shanghai Stock Exchange and the Shenzhen Stock Exchange launched collateralized stock repurchase transaction business in succession in June 2013, we received the qualification from the Shanghai Stock Exchange and the Shenzhen Stock Exchange in early July 2013 to conduct collateralized stock repurchase transaction business. We believe that the funds provided to the clients through collateralized stock repurchase would be primarily invested in the real economy and thus will further promote its development. This allows us to continually cultivate new valuable clients and identify outstanding enterprises with potential to become listed companies or industry leaders. We aim to provide various financial services to them in subsequent events including listing, market-making and transfer of listing.

We have gradually built our brand characterized with high efficiency, good quality and integrity, thus enabling the Company to charge higher fees. As a securities firm, we are able to quickly approve and set up collateralized stock repurchase products for our clients. Meanwhile, due to our specialization in the stock market, we are able to expand the types of collateral acceptable to us for pledge to include restricted stocks, thus enabling us to meet the requirements of different clients in a timely manner. We put significant efforts in cultivating and retaining high-value clients with potential, such as those who have a large number of restricted stocks. According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as of December 31, 2015, we ranked 9th among PRC securities firms in terms of the size of the collateralized stock repurchase business, with a market share of 3.5%.

In November 2014, we launched a standardized small-size collateralized stock repurchase product —“Orient e-financing” into the market. This product has been widely used to subscribe for IPO shares in the A share market. Our clients can open accounts easily via mobile devices and apply for a small short-term loan of RMB10,000 to RMB3 million on the mobile platforms. As of December 31, 2015, we had opened 7,900 “Orient e-financing” accounts, among which, 3,300 accounts had already carried out transactions, with a daily average balance of RMB196.1 million. We believe such standardized online financing products can help expand our collateralized stock repurchase business and improve client loyalty.

Repurchase agreement transactions refer to the transaction in which qualified clients sell subject securities to the securities firms designated by them for trading at an agreed-upon-price, and agree to repurchase the subject securities at another agreed-upon price on a specific date in the future. The Shanghai Stock Exchange and the Shenzhen Stock Exchange launched the repurchase agreement transaction business in October 2011 and January 2013, respectively. We obtained the qualifications for such business from the Shanghai Stock Exchange and the Shenzhen Stock Exchange in September 2012 and January 2013, respectively.

Compared with the collateralized stock repurchase transaction business, it is easier to open accounts and more convenient to complete required procedures for repurchase agreement transactions, but the subject securities must be tradable shares, and the transactions must be carried out by direct ownership transfer. We position repurchase agreement transactions as a small amount, online and

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standardized equity financing product for tradable shares. The following table sets forth the average annualized interest rates of our collateralized stock repurchase business and repurchase agreement transaction business as of December 31, 2013, 2014 and 2015:

Average annualized interest rates	2013	2014	2015
Collateralized stock repurchase	8.8%	8.9%	8.7%
Repurchase agreement transactions	8.2%	8.6%	8.7%

On December 31, 2013, 2014 and 2015, the balance of our collateralized stock repurchase and repurchase agreement transaction business, excluding the funds returned by our clients, was RMB2,237.2 million, RMB12,185.9 million and RMB24,140.3 million, respectively. In 2013, 2014 and 2015, revenue from our collateralized stock repurchase and repurchases agreement transactions business was RMB45.5 million, RMB592.9 million and RMB1,680.7 million, respectively.

We require our collateralized stock repurchase and repurchase agreement transaction clients to provide sufficient collateral and monitor the collateral ratio of the clients on a real-time basis. We pay close attention to the creditworthiness of clients in customized collateralized stock repurchase business. We consider the credit and asset condition of clients and the controlling shareholders, and track the use of funds to monitor changes in the clients’ creditworthiness, if any. Due to our prudent risk management, except for “Orient e-financing” (the standardized small-size collateralized stock repurchase product), there had been no forced liquidation incident resulting from collateral inadequacy in our collateralized stock repurchase business even when the A share market experienced considerable volatility in June 2015. As for certain “Orient e-financing” products that had been affected by the volatility of the stock market, since we strictly adhered to our risk control requirements and automatically performed liquidation according to the collateral ratio, only approximately RMB2.9 million was affected, all of which had been recovered by the Company without affecting the Company’s own capital. Please refer to “—Risk Management and Internal Control Measures of Major Businesses—Wealth Management Business—Securities Financing Business—Collateralized Stock Repurchase and Repurchase Agreement Transaction Business.” Save as disclosed above, in 2013, 2014 and 2015, there had been no forced liquidation incident resulting from an overly low collateral ratio. As of December 31, 2015, the collateral ratio of our collateralized stock repurchase business and repurchase agreement transaction business was 359.1% and 381.1%, respectively. The following table sets forth the breakdown of the stock collaterals received from our collateralized stock repurchase business and repurchase agreement transaction business (by type and market):

		As of December 31,		
		2013	2014	2015
		(RMB in millions)		
Liquid:				
Shanghai Stock Exchange		1,349.7	13,509.0	30,879.0
Shenzhen Stock Exchange		<u>1,983.0</u>	<u>7,349.2</u>	<u>10,809.5</u>
Total		3,332.7	20,858.2	41,688.5
Illiquid:				
Shanghai Stock Exchange		789.1	958.1	1,562.7
Shenzhen Stock Exchange		<u>959.6</u>	<u>14,127.2</u>	<u>43,624.4</u>
Total		1,748.7	15,085.3	45,187.1

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The following table sets forth a sensitivity analysis on the impact of the changes in the value of the stock collateral on our collateral ratio regarding collateralized stock repurchase business and repurchase agreement transaction business as of December 31, 2015 and as of the Latest Practicable Date:

	As of December 31, 2015			As of the Latest Practicable Date		
	Actual	20% decrease in market value	40% decrease in market value	Actual	20% decrease in market value	40% decrease in market value
Balance of collateralized stock repurchase and repurchase agreement transaction business (RMB in millions)	24,140.3	24,140.3	24,140.3	26,425.0	26,425.0	26,425.0
Fair value of the collateral (RMB in millions)	86,875.6	69,500.4	52,125.3	75,338.5	60,270.8	45,203.1
Collateral ratio ⁽¹⁾	359.9%	287.9%	215.9%	285.1%	228.1%	171.1%

Note:

(1) Collateral ratio represents the ratio of the fair value of initial and supplement collateral, less any collateral already released, plus interests and dividends received, divided by the amount payable by the borrower.

Sources of funds and securities

The sources of funds of our margin financing business mainly include the following:

- Our own funds;
- Proceeds from the issuance of corporate bonds, subordinated bonds, short-term corporate bonds of securities firms, short-term financing bills of securities firms and structured notes;
- Margin loans receivables-backed repurchase: we contract with counterparts to sell margin loans receivables to them to acquire short-term financing and agree to repurchase relevant assets afterwards; and
- Margin refinancing: we obtained the qualification to pilot the margin refinancing business in November 2012. Margin refinancing business makes it convenient for us to lend funds of third parties to our clients, which can increase the amount of funds available for margin financing business. We borrow funds from China Securities Finance Corporation and lend such funds to the clients of our margin financing business.

The sources of securities of our securities lending business mainly include:

- Proprietary securities; and
- Securities refinancing: we became one of the first batch of PRC securities firms to pilot the securities refinancing business in September 2013. Securities refinancing business makes it convenient for us to lend securities of third parties to our clients, which can increase the number of securities available for securities financing business. We can borrow securities from China Securities Finance Corporation and lend such securities to the clients of our securities financing business. We have not borrowed any securities through securities refinancing.

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Investment Management

Our investment management services include:

- **Asset management:** Through Orient Securities Assets Management, the first asset management subsidiary of a securities firm in China, we design and provide comprehensive investment management solutions by offering asset management products and services, including CAM, TAM, SAM and mutual funds;
- **Fund management:** We also conduct fund management business through China Universal, an associate in which we are the largest shareholder with 39.96% equity interest. According to the Asset Management Association of China, as of December 31, 2015, China Universal ranked 10th among fund management companies in China by AUM of mutual funds and 11th by AUM of segregated accounts (excluding social security funds and corporate annuity); and
- **Private equity investment:** We engage in private equity investment business through Orient Securities Capital Investment, our wholly-owned subsidiary, and conduct private equity fund management business through its subsidiaries.

In 2013, 2014 and 2015, revenue from our investment management business segment, excluding the fund management business of China Universal, was RMB202.1 million, RMB319.0 million and RMB1,755.8 million, accounting for 4.5%, 4.1% and 8.7% of our total revenue, respectively. The following table sets forth the breakdown of the revenue from our investment management business for the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
(In millions, except percentages)						
Orient Securities Asset Management	191.4	94.7	305.0	95.6	1,427.5	81.3
Orient Securities Capital Investment	10.7	5.3	14.0	4.4	328.3	18.7
Total	202.1	100.0	319.0	100.0	1,755.8	100.0

Asset Management Business

We provide asset management services and products for our clients, including CAM, TAM, SAM and mutual funds.

- **CAM schemes:** the asset management schemes in which we manage the assets for several clients by using the designated account in accordance with relevant laws and CAM contracts;
- **TAM schemes:** the asset management schemes in which we are authorized by, and enter into a contract with, a single client to manage the assets entrusted by such client through a segregated account according to the conditions, requirements and restrictions provided in the contract;
- **SAM schemes:** the management of specific assets for clients for specific purposes; and
- **Mutual funds:** mutual funds raised by securities firms for asset management.

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The following table sets forth the AUM and commission and fee income by product type for the periods indicated:

	As of or for the year ended December 31,					
	2013		2014		2015	
	AUM	Commission and fee income	AUM	Commission and fee income	AUM	Commission and fee income
	(RMB in millions)					
CAM schemes	15,601.2	193.0	13,240.5	214.9	25,202.5	897.2
TAM schemes	22,149.5	34.0	25,493.1	36.4	53,655.1	213.3
SAM schemes	2,493.1	3.4	2,798.2	14.3	1,487.1	7.0
Mutual funds	—	—	3,062.1	27.0	27,525.8	290.1
Total	40,243.8	230.4	44,593.9	292.6	107,870.5	1,407.6

The following table sets forth a breakdown of the AUM between discretionary management products and non-discretionary management products as of the dates indicated:

	As of December 31,					
	2013		2014		2015	
	AUM	%	AUM	%	AUM	%
	(RMB in millions, except percentages)					
Discretionary management products ⁽¹⁾	26,345.2	65.5%	32,856.9	73.7%	96,748.1	89.7%
Non-discretionary management products ⁽²⁾	13,898.6	34.5%	11,737.0	26.3%	11,122.4	10.3%
Total	40,243.8	100.0%	44,593.9	100.0%	107,870.5	100.0%

Notes:

- (1) The discretionary management products include the TAM schemes where the specific investment objects determined by the manager according to the investment scope and limitation as agreed in the agreements signed with clients, CAM schemes, SAM schemes and mutual funds.
- (2) The non-discretionary management products include asset management schemes under the TAM schemes where the investments are carried out in strict accordance with the specific investment instructions of the clients.

Pursuing the principle of “Clients First,” we endeavor to create a premier client-oriented “well-respected asset management company” with a mission to help our clients achieve absolute return and through a performance-based fee model. As a result, Orient Securities Asset Management has always taken active management strategies with an aim to achieve a balance between size and quality of the AUM. Orient Securities Asset Management’s predecessor, which was our asset management business department, started engaging in asset management for clients in 1998. We have been a long-term leader in the asset management industry: we were among the first batch of securities firms to conduct CAM business in 2005; the first asset management subsidiary of a securities firm approved in 2010; one of the earliest asset management firms qualified as an investment manager for insurance funds in 2012; and the first securities firm to obtain mutual fund management license in 2013.

We have achieved solid performance for all of our asset management products. From 2005 to 2015, the average annualized return of our discretionary management equity products was 25.0%. During the same period, the average annualized return of CSI 300 Index was 14.6%. In addition, the average annualized return of our discretionary management equity products from 2013 to 2015 was 26.5%, 37.5% and 43.3%, respectively. In the second half of 2015, the A share market experienced considerable volatility. From June 30 to December 31, largely due to the effective allocation and timely adjustment of our investment portfolio, we were able to minimize the loss in the equity investment portfolio under our management to only 0.3%, while CSI 300 Index dropped 16.6%.

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We have distinguished investment expertise. Since its establishment in 1998, our asset management team has experienced multiple market cycles and has accumulated extensive experience in investment management and risk control. Pursuing value investing and absolute return, we have built a strong team of equity investment professionals over the years who share common investment philosophy of value investing and pursuit of absolute return, and cultivated a teamwork culture. In addition, we established a fixed income investment team and a quantitative investment team and expanded these teams in recent years. As of December 31, 2015, Orient Securities Asset Management had 151 employees, among which 65 were investment and research professionals. Our investment and research team has been stable for a long time and possesses extensive experience. The turnover rate of our investment and research team was only 3% in 2015.

We are a leader in product innovation. By leveraging our leading investment management capabilities and focusing on clients’ needs, we launched various pioneer products among the domestic securities firms to provide our clients with alternative investment and financing solutions. These products included one of the first large CAM schemes, the first small CAM scheme, the first discounted collective product, the first structured large CAM scheme, the first small loan asset-backed securitization product and the first mutual fund in China.

Our asset management team has won various awards, including:

- “China’s Best Wealth Management Brand in 2015” by Securities Times in 2015 awarded to “DFH”, the brand of our asset management product;
- Outstanding Collective Wealth Management Securities Firm Award (for five-year period 2008-2012) in “the Fifth Annual Conference for Selecting the Best Private Equity Funds in China” in 2013, Five-year Winning Award (2009-2013) in “the Sixth Annual Conference for Private Equity Funds in China” in 2014 and Five-year Winning Award (2010-2014) in “the Seventh Annual Conference for Private Equity Funds in China” in 2015, each was hosted by Sinolink;
- China’s Best Asset Management Securities Firm awarded by Securities Times in 2013 and 2014;
- Golden Bull—Collective Asset Management Securities Firm jointly awarded by China Securities Journal and JNLC.com in 2013 and 2014; and
- Grand Prize for Comprehensive Management Capabilities awarded by Shanghai Securities News in 2013.

We actively promote the development of cross-border businesses, and invest the CAM schemes and mutual funds into the stock market in Hong Kong through the Shanghai-Hong Kong Stock Connect. We have 27 products that can invest through this channel.

CAM

As of December 31, 2015, we had 48 CAM schemes with AUM of RMB25.2 billion.

The minimum investment for large CAM schemes under DFH series ranges from RMB50,000 to RMB100,000. The minimum investment for small CAM schemes under DFH series was RMB1.0 million. We have established diversified product lines with different risk-return characteristics and

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covering different investment areas such as equity, fixed income and quantitative investment, to meet the needs of the investors with different risk appetite.

The following table sets forth the number and AUM of our CAM schemes as of the dates indicated:

	As of December 31,		
	2013	2014	2015
Number of schemes:			
DFH large CAM schemes ⁽¹⁾	25	21	21
DFH small CAM schemes	17	20	27
Total	42	41	48
AUM (RMB in billion)	15.6	13.2	25.2

Note:

(1) On June 26, 2013, the CSRC revised the Administrative Measures on Client Asset Management of Securities Firms, deleted the provisions relating to the collective schemes with over 200 investors (“large CAM”), and prohibited the establishment of new large CAM schemes, while allowing the large CAM schemes already established before such new regulatory requirements to continue their operation. All of our existing large CAM schemes are products with no specified duration and thus can continue to operate. For further information, please refer to “Regulatory Environment.”

As of December 31, 2015, we have 20 CAM schemes included in the Wind Info database for the latest three years, among which, three balanced mixed products ranked the top three among peers by performance and seven flexible allocation products ranked in the top 25% by performance. In addition, the total return of DFH No. 4, our existing product with the longest history, reached 407.0% for the period from its establishment in April 2009 to the end of 2015. In comparison, during the same period the return of CSI 300 Index was 39.7% and the highest return of equity mutual funds was 285.5%.

There are structural tranches (senior and subordinated) in certain asset management products. We used our own capital to subscribe for certain portion of subordinated tranche of the asset management schemes. Under the agreements between us and our clients for these schemes, we must compensate our clients the difference between the actual investment return of the schemes and the expected return we pre-agreed with them, which is capped at our total investment amount in the scheme. As of December 31, 2015, we had a balance of RMB413.0 million invested in the subordinated tranches. Please refer to “Risk Factors—Risks Relating to Our Business and Industry—Poor investment performance of our asset management schemes and fund management may materially and adversely affect our asset management business.”

TAM

We enter into TAM contract with a single client, which could be an institutional client, a corporate client or a high-net-worth client. We open investment management account in the name of the client and provide “one-to-one” professional asset management service. In our TAM business, we emphasize the development of discretionary asset management schemes rather than channel-based schemes, which differentiates us from many other securities firms.

As of December 31, 2015, we had 78 TAM schemes with AUM of RMB53.7 billion. Among them, the AUM of discretionary management assets was RMB42.5 billion, accounting for 79.3%. RMB30.9 billion of discretionary management assets came from the large banks and insurance companies in China, accounting for 57.5%.

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SAM

We are one of the earliest players in the industry to provide the securitization services and have launched various products, including Orient Securities Asset Management—Alibaba No. 1 to No. 10 SAM schemes, Orient Securities Asset Management—Ant Small-loan (SZ) No. 1 asset-backed specialized scheme. Currently, all our SAM schemes are listed on the stock exchanges and are traded among institutional investors.

Orient Securities Asset Management—Alibaba No. 1 to No. 10 SAM schemes were approved by the CSRC in June 2013 and became the first asset-backed securitization scheme backed by Internet small loans assets. Their senior tranche securities were listed on the Shenzhen Stock Exchange in September 2013, the first in the industry. This project was awarded the Second Prize for Shanghai Financial Innovation Achievements in 2013 due to innovation in the selection of assets and design of the product structure. It received China’s Best Asset Management Innovation Product Award from Securities Times in 2014.

Mutual funds

We became the first securities firm to obtain a qualification for the public offering of mutual funds in August 2013. As of December 31, 2015, we had launched 15 mutual funds in total, with AUM of RMB27.5 billion. We launched the first mutual fund of securities firms in January 2014 and the first listed mutual fund of securities firms in March 2015.

According to Wind Info, the net asset value of “DFH Ruifeng”, “DFH Industrial Upgrade” and “DFH New Motion”, our mutual funds with a full-year track record by the end of 2015, increased by 65.3%, 51.9% and 47.5%, respectively in 2015.

Fund Management Conducted Through China Universal

We also participate in the fund management business through China Universal, of which we are the largest shareholder with 39.96% equity interest. China Universal possesses all the licenses required to engage in fund management business in the securities industry in China. Its businesses cover areas such as mutual funds, segregated accounts, international business and pension funds. Its fund investment covers five major areas, namely stocks, fixed income, passive investment, overseas investment and alternative investment. China Universal was founded in February 2005. It became the first in the industry to obtain QDII qualification in October 2007 and one of the first fund management companies to obtain the qualification for segregated accounts in February 2008. In November 2009, it established China Universal (Hong Kong). It also obtained the qualification to act as an entrusted investment manager for social security funds in December 2010. It offered one of the first RQFII fund products in China in January 2012. As of December 31, 2015, the AUM of China Universal reached RMB467.3 billion.

The major businesses of China Universal include:

- **Mutual funds:** As of December 31, 2015, AUM of mutual funds of China Universal was RMB252.5 billion. It manages 58 funds in total, including 7 equity funds, 9 index and ETF funds, 16 hybrid funds, 12 bond funds, 7 money market funds, 3 QDII funds and 4 short-term wealth management funds. China Universal is a leader in innovation. It has launched several pioneer funds of the industry, including a medical healthcare fund in 2010, the first

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fund targeting a specific industry, and China Universal Cash Express in December 2012, the first money market fund traded on exchanges. According to the Asset Management Association of China, as of December 31, 2015, China Universal ranked 10th in the industry by AUM of mutual funds;

- **Segregated accounts:** As of December 31, 2015, AUM of segregated accounts of China Universal (excluding social security and corporate annuity) reached RMB81.5 billion, ranking 11th in the industry according to the Asset Management Association of China. China Universal has been engaged to manage assets for social security funds since December 2010; and
- **International business:** China Universal (Hong Kong) is an important platform for China Universal in cross-border business and cooperation. It obtained the RQFII qualification in December 2011. It obtained the QFII license in February 2015 and is able to carry out businesses in China for overseas investors.

China Universal has achieved solid performance. According to Wind Info, the average growth of net asset value of actively managed equity mutual funds and all mutual funds managed by China Universal was 151.7% and 64.9% from 2013 to 2015, ranking 1st and 2nd, respectively, among the top 15 fund management companies by the AUM of mutual funds. In comparison, CSI 300 Index increased by 47.9% during the same period.

China Universal actively explores the opportunities to develop Internet finance business and has made significant progress. China Universal launched “Cash Treasure” in 2009, the first cash management account marketed through the Internet in China (“Baobao” type account), and upgraded it to be the first money market fund that features T+0 quick cash withdrawal in September 2013. China Universal has formed a comprehensive electronic financial service platform and has started cooperation with dozens of online platforms and channel partners including WeChat Money and China Mobile. At the same time, it also continues to develop its own mobile terminal.

China Universal’s leading professional capabilities and strong track record have been widely recognized by the industry and the society, and it has won numerous awards, including:

- The Golden Fund Top Company Award by Shanghai Securities News in 2014 and 2015;
- The Star Fund Company in the Fund Industry of China Award—Top Ten Star Fund Companies by Securities Times in 2014;
- The Golden Fund for Ten Years Outstanding Company Award by Shanghai Securities News in 2013;
- Three-year Golden Bull Equity Bond Award by China Securities Journal in 2013;
- Second Prize for Financial Innovation Achievements, awarded by Shanghai Municipal Government to China Universal’s Cash Treasure project in 2014; and
- Second Prize for Financial Innovation Achievements, awarded by Shanghai Municipal Government to China Universal’s Cash Express in 2013.

In addition to fund management business, China Universal, through its subsidiary China Universal Capital, in which it holds 50% equity interest, is engaged in segregated accounts asset management business. It currently offers products in cash management, real estate financing and those relating to local government financing vehicles.

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Private Equity Investment

Orient Securities Capital Investment, our wholly-owned subsidiary, is engaged in private equity investment business and carries out private equity fund management business through its subsidiaries. As of December 31, 2015, Orient Securities Capital Investment had completed eight private equity investment projects with a total investment amount of RMB287.2 million. In 2015, Orient Securities Capital Investment achieved revenue of RMB328.3 million.

Orient Securities Capital Investment carries out its business mainly through fund management. Orient Securities Capital Investment and its fund management subsidiaries act as fund managers and receive annual management fees. It also invests a certain amount of its own funds in these private equity funds to share their profits.

Orient Securities Capital Investment determines and adjusts its overall investment direction according to market demand and industry development stages. It selectively invests in companies with effective business models and high growth potential. It targets long-term returns through strategic investment, and at the same time has effectively improved its liquidity through timely exit from short-term projects, which allows it to start a new round of investment quickly and prudently control risks. In recent years, Orient Securities Capital Investment has invested in media, technology, Internet gaming and high-end manufacturing industries, mainly in the form of M&A investment. Leveraging the Group’s resources, Orient Securities Capital Investment strives to help the investee companies to achieve rapid development and enhanced efficiency. In recent years, Orient Securities Capital Investment has invested in several high-profile projects in the market, including, amongst others, Shanda Games (already exited), China Mobile Games & Entertainment, Japan SNK and TV189.

Securities Sales and Trading

Our securities sales and trading business consists of securities investment (including equity securities investment and trading, fixed income investment and trading and derivatives trading), NEEQ market-making, alternative investment and securities research, as well as prime brokerage service for institutional clients. We have been focusing on the development of securities investment business since our establishment. During the past two decades, we continued to cultivate investment teams and accumulate market experience. Pursuing value investing and active risk management, our investment and research capabilities are now well recognized in the industry, and we have achieved a favorable average return in securities investment.

In 2013, 2014 and 2015, revenue from our securities sales and trading business amounted to RMB2,303.9 million, RMB3,318.1 million and RMB8,713.9 million, respectively, representing 50.8%, 42.5% and 43.0% of our total revenue, respectively.

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The following table sets forth a breakdown of revenue from our securities sales and trading business for the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
	(RMB in millions, except percentages)					
Securities investment						
Securities Investment Department (mainly engages in equity securities investment and trading) ⁽¹⁾	640.0	27.8	1,201.0	36.2	5,667.3	65.0
Fixed Income Department (mainly engages in fixed income securities investment and trading)	1,380.0	59.9	1,758.3	53.0	2,159.5	24.8
Derivatives Department (mainly engages in derivatives trading)	82.6	3.6	108.8	3.3	280.4	3.2
Orient Securities Innovation Investment (mainly engages in alternative investment)	24.1	1.0	87.7	2.6	224.6	2.6
Research Institute	180.9	7.9	157.9	4.8	378.8	4.3
Others ⁽²⁾	(3.7)	(0.2)	4.4	0.1	3.3	0.1
Total	2,303.9	100.0	3,318.1	100.0	8,713.9	100.0

Notes:

(1) Includes NEEQ market-making.

(2) Include certain consolidated TAM products.

Securities Investment

Revenue from our securities investment business is primarily derived from realized gains and gains or losses from fair value changes of equity securities, fixed income securities, and financial derivatives. In 2013, 2014 and 2015, revenue from our securities investment business amounted to RMB2,102.6 million, RMB3,068.1 million and RMB8,107.2 million, respectively. The following table sets forth the balance by asset category of our securities investment business as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Stocks ⁽¹⁾	5,700.1	6,388.7	12,095.6
Funds	1,068.9	787.1	4,899.5
Bonds	23,720.2	30,094.1	34,014.1
Others ⁽²⁾	387.9	1,080.9	2,170.3
Total	30,877.1	38,350.8	53,179.5

Notes:

(1) Include NEEQ market-making.

(2) Primarily include investments in asset management schemes and wealth management products using our own capital.

During the Track Record Period, benefiting from the growth of the PRC securities market, our professional and prudent investment strategies and proper use of leverage on fixed income investments, the average return of our securities investment was 14.4%, 27.6% and 44.5% in 2013, 2014, 2015, respectively. After the significant rise from second half 2014 to June 2015, the A share market experienced considerable volatility, partially due to market deleveraging beginning in June 2015. The PRC government has introduced measures to stabilize the market. We also participated in the market stabilization activities, by contributing funds to China Securities Finance Corporation and making commitment not to reduce the position of our stocks held for investment under certain

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conditions. The volatility in the A share market since June 2015 has affected our securities investment business. In response to market volatility, we were able to minimize the adverse market impact by adhering to our core value investing strategy and proactively adjusting the composition of our investment portfolio. In addition, most of our securities investment portfolios are fixed income securities, which are less vulnerable to volatility in the A share market.

Over the years, we have established and continued to improve a comprehensive and effective system covering the Group’s allocation of assets and liabilities and risk limits. The system ensures that our overall risk is measurable, manageable and within our risk tolerance. Based on our financial budget plan and our assessment on macroeconomic and market conditions, while considering net capital requirement and risk exposure, we allocate annually funds and assets to each business unit and specify its respective limit. We have established a dynamic monitoring and stop-loss mechanism for the securities investment business to ensure we operate within the risk limit.

We intend to gradually expand the investment scope in the future within our risk tolerance. We will invest in traditional equity or fixed income products as well as quasi-fixed income products. We will also increase investment in derivatives with a market neutral strategy, expand the size of arbitrage trading and explore new revenue sources. In addition, we intend to expand FICC business to foreign exchanges, gold, commodities as well as corresponding derivatives, structured products and portfolios.

In order to strengthen management of securities investment business and ensure that such strategies are carried out in an efficient manner within the scope of authorization, we have formulated relevant administrative rules and established a five-level management system. The investment risks are managed through rigorous system. We have also optimized decision-making process to ensure the safety and efficiency of our investments. Please see “—Risk Management and Internal Control Measures of Major Businesses—Securities Sales and Trading—Securities Investment Business—The Investment Decision-making Processes.”

Equity securities investment and trading

We invest and trade equity securities and funds and use derivatives as hedging tools as appropriate. Such investments are all funded by our own capital.

We pursue value investing. Based on our in-depth analysis of macro-economic condition, regulatory environment and industry and market cycles, we carefully select individual stocks with long-term investment value, and make investment decisions prudently. We strive to capture investment opportunities of companies with solid operating performance, high-growth potential and good market liquidity. We decide on timing to buy and sell particular equity securities, based on industry analysis, market cycles analysis, changes in regulations and macro factors as well as behaviors of market participants.

We follow the principle of diversified investment and build a dynamically adjusted stop-loss and “take-profit” mechanism, which means, if the security investment is profitable, the relevant stop-loss line will be raised accordingly. By doing so, we seek to reduce our positions based on the prevailing prices to secure the investment gains we achieved at an early stage when the market condition deteriorates.

We started to conduct stock investment since our establishment and have formed an experienced and sizable investment and research team. As of December 31, 2015, our Equity Investment Department (except for NEEQ market-making) is composed of 32 employees, among

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which 25 are research analysts and investment managers (including chief investment officer). All of the investment managers are internally promoted with an average working experience of more than five years with us. Our investment and research team has established good internal communication mechanism, attaches great importance to professional development, and continually strengthens analytical capabilities and market acumen.

We engage in derivatives trading to hedge the risks of equity securities investment business, and we use it as part of our measures to control risks relating to securities investment. In recent years, risks of equity securities investment portfolios have been hedged through stock index futures. Currently, there are three index futures, including CSI 300 Index Futures (滬深300股指期貨), SSE 50 Index Futures (上證50股指期貨) and CSI 500 Index Futures (中證500股指期貨) and one ETF option which is SSE 50 ETF Option (上證50 ETF期權) available for hedging purpose in China. However, our hedging strategy is limited by the availability of existing hedging products and the restrictions imposed by CSRC on using stock index futures as a hedging option. In addition, the cost of shorting stock index futures to hedge against risks in the stock market increased significantly due to illiquidity of stock index futures since July 2015. Going forward, we expect to make use of innovative derivatives in a prudent manner, which will help manage the size of our equity investments more effectively while maintaining the level of risk exposure.

As the A share market has experienced considerable volatility since June 2015, we made a joint announcement with other 20 major securities firms in China on July 4, 2015, stating that we will promote the stable development of the PRC stock market and contribute 15% of net assets as of June 30, 2015 to China Securities Finance Corporation to invest in the blue chips ETFs. On September 1, 2015, we decided to further increase our total contributions to China Securities Finance Corporation to no more than 20% of our net assets as of July 31, 2015. As of December 31, 2015, we had contributed approximately RMB6.5 billion in total. We also made commitment not to reduce the position of our stocks held for investment under certain conditions. Please see “Risk Factors—Risks Relating to Our Business and Industry—We have made contributions for investment in China blue chips ETF and have committed not to reduce the position of our stocks held for investment under certain conditions.”

Fixed income investment and trading

As for fixed income investment and trading, we trade various fixed income securities, including treasury bonds, financial bonds, PBOC notes, medium-term notes, short-term financing bills, corporate bonds, enterprise bonds and convertible bonds as well as fixed income funds and derivatives, on the PRC interbank bond market and relevant exchanges. We were awarded Excellent Issuer, Excellent Dealer and Excellent Underwriter of the PRC Bond Market in 2014 and 2015. We are one of the two securities firms that received all three awards in both years. In addition, we received Best Securities Firm Award of Inter-bank Local Currency Market (“銀行間本幣市場最佳證券公司獎”), and we were named as the Excellent Dealer Team of Treasury Bond Futures (“國債期貨優秀交易團隊”) by China Financial Futures Exchange in each of 2014 and 2015.

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We apply prudent investment strategy for our fixed income investment and trading business with an objective to maintain a balance between earnings and growth. In order to achieve this goal, we focus on risk management and leverage derivatives such as interest rate swaps and treasury bond futures to hedge interest rate risk. We also focus on diversifying asset allocation to cover various bond assets to reduce concentration risk. As for credit bonds which constitute the largest portion of our investment, we control our risk by allocating funds to different industries and limit our holding of lower rated ones. The following table sets forth the balance of our fixed income investments by type and rating of bonds as of the dates indicated:

	As of December 31,					
	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
	(RMB in millions, except for percentages)					
Treasury bonds, PBOC notes, financial bonds and local treasury bonds	4,798.5	20.2	5,388.7	17.9	5,998.0	17.6
Credit bonds (include enterprise bonds, corporate bonds and convertible bonds):						
AAA or higher	5,673.6	23.9	6,219.6	20.7	7,616.0	22.4
AA to AAA	13,204.4	55.7	18,426.0	61.2	20,359.8	59.9
Below AA	43.7	0.2	59.8	0.2	40.3	0.1
Total	23,720.2	100.0	30,094.1	100.0	34,014.1	100.0

Our fixed income investment and trading business also includes market-making business on the PRC interbank bond market. In April 2014, we became a trial market maker in the PRC interbank bond market. We publish bilateral quotation and actively respond to the quoting demands from the market participants. Securities products in our market-making business include treasury bonds, financial bonds, short-term financing bills and medium-term notes, each with a term of less than 10 years. In May 2015, we completed filing with National Association of Financial Market Institutional Investors and became a market maker in Beijing Financial Assets Exchange for credit financing products issued by non-financial enterprises. We are able to provide liquidity to qualified non-financial institutional investors due to our outstanding performance in market-making business. According to China Foreign Exchange Trading Center, we ranked top five among all the securities firms by volume of the fixed income market-making business in every month 2015. In order to effectively control risks, we continue to reinforce our market-making strategies by trading a variety of products in market-making business.

In addition, we have provided banks, securities firms, trust companies and asset management companies with investment advisory services in fixed income transactions since 2013. We offer single fund-trust products and structured products for fixed income investments, some of which we subscribe for the subordinated tranche with our own capital after our clients subscribe for the senior tranche. As of December 31, 2015, we have entered into cooperative agreements with a number of financial institutions and launched 14 discretionary management products with AUM of RMB18.0 billion, successfully converting our own investment capabilities into an ability to manage assets for our clients.

Derivatives trading

Using quantitative strategies, we seek profitable trading opportunities arising from various derivatives and the underlying spot markets, to gain market neutral returns at a low risk. This is different from equity and fixed income investments, which use derivatives as a hedging instrument. Our derivatives trading business expands gradually from traditional ETF arbitrage and stock index

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futures arbitrage transactions into Alpha strategy investment, market-making and trading of exchange-traded options, equity return swaps, OTC options, income certificates and other OTC products, thus forming a comprehensive business line that covers both exchange-traded and OTC business. As we adopt a primary market neutral model based on quantitative strategies, risks and return volatility in our derivatives trading business are relatively lower than traditional stocks and bonds investment. The return of investment for our derivatives trading business was not affected significantly by the A share volatility since June 2015, reflecting the effectiveness of our market neutral model.

Our derivatives team is led by Mr. Ling Xuezhen who is a member of the National Thousand Talents Program of China. Mr. Ling previously held positions in various top international financial firms. He has extensive management experience in areas such as portfolio trading and stock index futures, market risk management, credit derivatives, research and trading, structured credit investment and direct investment. Mr. Ling has contributed to the financial innovations initiated by the SAC and stock exchanges, and participated in the (i) drafting of the industry rules governing OTC derivative business, (ii) the professional review of pilot OTC derivative scheme as well as (iii) the design of option products and market maker systems.

As equity trading accounted for a large portion in China capital markets, we primarily focus on exchange-traded stock index futures since the establishment of our derivatives business. However, we have been actively exploring and expanding our market neutral model and quantitative strategies into commodities, precious metals and foreign exchanges. China Financial Futures Exchange has tightened management of stock index futures trading as a result of volatility in the A share market in June 2015, which has restricted the liquidity of stock index futures to a certain extent. This has had negative impact on the successful implementation of stock index futures based quantitative strategies. As a result, we intend to further develop non-stock index futures based derivative trading models such as commodity futures. In addition, through cross-selling with securities branches, we strive to transform our derivatives trading business into risk intermediary business by actively expanding market neutral OTC derivatives trading tailored to the hedging demands of clients.

NEEQ Market-making

We were one of the first securities firms registered with NEEQ Company and permitted to conduct business as a market maker in June 2014. In 2014 and 2015, we participated in the market-making business of 12 and 93 companies, respectively. According to the statistics of NEEQ Company as of December 31, 2015, the trading volume of our market-making transactions in 2015 amounted to RMB10.7 billion, representing 9.7% of the total trading volume of all market-making transactions and ranking 3rd among all market makers.

We select market-making clients based on strict selection criteria, including their industry, corporate governance, shareholding and prospects, so as to determine whether such NEEQ quoted company is suitable for our market-making business. Our NEEQ market-making business model is shown as follows:

- We select a company with growth potential based on our internal selection criteria. Once selected, we enter into a market-making agreement with the selected company;
- We purchase shares from the selected company at a mutually agreed-upon price and act as an intermediary between buyers and sellers of shares of new NEEQ quoted companies;
- As an intermediary of a new NEEQ quoted company, we formulate offer and bid quotes, with a bid-ask spread of no more than 5%, and solicit buyers and sellers for the relevant shares; and

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- We sell inventory stocks of the NEEQ quoted company we own to buyers, and facilitate the completion of sales between other sellers and buyers of relevant stocks.

Revenue from our NEEQ market-making business mainly includes the following: (i) the difference between the purchase price and the selling price (which is generally higher than the purchase price) of our inventory stocks; and (ii) the bid-ask spread we collect when facilitating trading in shares. According to the *Stock Transfer Rules of the National Equities Exchange and Quotations System (Trial)* (《全國中小企業股份轉讓系統股票轉讓細則（試行）》) for the supervision on NEEQ market-making activities of securities firms, a securities firm (acting in the capacity of market maker) may obtain shares of a new NEEQ quoted company in the following manners: (i) acquiring the shares from existing shareholders of such new NEEQ quoted company before such new NEEQ quoted company receives an offer on the NEEQ; (ii) share offerings; (iii) acquiring the shares from other market makers; and (iv) other lawful means.

Alternative Investment

In November 2012, we established a wholly-owned subsidiary Orient Securities Innovation Investment to engage in alternative investment business. As of December 31, 2015, Orient Securities Innovation Investment had completed 70 investment projects with a total investment amount of approximately RMB2,286 million. Its investment products include non-performing assets disposed by banks, and NEEQ equity investment and structured investment business. In 2013, 2014 and 2015, revenues from Orient Securities Innovation Investment increased substantially, amounting to RMB24.1 million, RMB87.7 million and RMB224.6 million, respectively.

Securities Research Business

We provide our institutional clients with research services. Institutional clients lease trading seats from us and allocate funds to the seats based on our research services. We collect commissions accordingly. Fund allocation business is now the major source of revenue of our research business. Our institutional clients mainly include the national social security funds, insurance companies, asset management companies, mutual fund management companies, private equity fund management companies, QFII and other institutional investors.

Our securities research business has formed a comprehensive research system covering macro research, strategy research, tactics research and research on financial engineering and its derivatives. We provide industry and company research. In terms of industry research, we mainly provide focused research services in industries where we have strong expertise, such as TMT, new energy, chemical and military. We also conduct research in “Internet Finance” and other popular investment topics. Currently, we have covered over 120 listed companies across nearly 40 industries. Since 2013, we have published approximately 6,000 research reports to date spanning across various areas of capital markets and provided featured value-added services to clients from which we have generated profits.

As of December 31, 2015, our research institute had 75 research analysts in total. We have attracted and retained talents through a sound recruitment, training and performance evaluation mechanism. We have also introduced a “Super Analyst (超級分析師)” program to promote outstanding talent rapidly.

In light of the outstanding achievements we have made in the research business, we have received a number of awards during the Track Record Period, including the “Best Analyst

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(最佳分析師)” awarded by New Fortune (新財富) in 10 categories; “Crystal Ball Award for Sell-side Analysts (賣方分析師水晶球獎)” awarded by Securities Market Weekly (證券市場週刊) in 25 categories; and “Best Analyst (最佳分析師)” awarded by Chinese Business Network (第一財經) in 8 categories.

Investment Banking

We engage in the investment banking business through Citi Orient, a subsidiary in which we hold 66.67% equity interest and our Fixed Income Department. Citi Orient engages in the underwriting and sponsorship of corporate stocks and corporate bonds, underwriting of enterprise bonds and asset-backed securities, corporate restructuring and reorganization, and M&As. Our Fixed Income Department underwrites treasury bonds, financial bonds of policy banks, short-term financing bills and medium-term notes. In 2013, 2014 and 2015, revenue from investment banking business amounted to RMB260.1 million, RMB512.7 million and RMB920.9 million, representing 5.7%, 6.6% and 4.5% of our total revenue, respectively. The following table sets forth a breakdown of revenue from investment banking business for the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
	(RMB in millions, except percentage)					
Equity underwriting and sponsorship	35.9	13.8	123.4	24.1	150.8	16.4
Debt underwriting	143.4	55.1	237.4	46.3	370.3	40.2
Financial advisory business	51.4	19.8	99.9	19.5	334.0	36.3
Others	29.4	11.3	52.0	10.1	65.8	7.1
Total	260.1	100.0	512.7	100.0	920.9	100.0

Our investment banking business provides services to the following client groups:

- Financial institutions, state-owned enterprises and sector leaders, such as China Development Bank, Agricultural Development Bank of China, China Minsheng Bank and DBS Bank;
- Listed companies with cross-border operations and renowned multinational corporations with China operations, such as Tigermed;
- Private sector enterprises with high growth potential or core competitiveness in their respective segments, such as O-film Tech Co., Ltd., Jinhe Industrial Development Co., Ltd, Century Huatong Group, Sanxing Medical Electric Co., Ltd. and Silan Microelectronics Co., Ltd.; and
- Key regional state-owned enterprises and listed companies with substantial business opportunities, such as Zhongtai Chemical Co. Ltd. and Wanhua Chemical Co. Ltd.

We focus on leveraging the rich experiences of Citigroup, the U.S. shareholder of Citi Orient and strive to maximize the synergies between investment banking and our other business segments. We are devoted to developing business opportunities of international transactions and clients by leveraging the global client resources of Citigroup. In addition, capitalizing on the mature product solutions, professional expertise and operational experiences of Citigroup, we cultivate our own talents to achieve localized product innovation. In addition, Citi Orient seamlessly collaborates with Orient Securities Capital Investment and Orient Securities Asset Management in M&As and asset management sectors. In the future, we will continue to enhance all the collaborative efforts in order to provide full-fledged and full life-cycle financial services to our clients.

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In recent years, we have received a number of influential awards for our investment banking business, including:

- In 2015, we received the award of “Best Equity Underwriting Team in China in 2015” by Securities Times;
- In 2015 and 2014, we were rated as Class A in the practice capacity and professional evaluation of securities firms engaging in financial advisory business for M&As of listed companies;
- In 2014, we received the award of “Best NEEQ Host Securities Firm in China” by Securities Times;
- In 2014, we received the award of “Best Bond Financing & Underwriting Team in China in 2014” by Securities Times;
- In 2014, we received the award of “Outstanding Underwriter in Chinese Bond Market in 2014” by China Government Securities Depository Trust & Clearing Co. Ltd.;
- In 2013, Citi Orient received the award of “Best Innovation Project” by Securities Times for the project of “Back-door Listing of Hubei Radio & Television through Wuhan Plastics”; and
- In 2013, we ranked 8th among all market participants and second among securities firms in terms of the aggregate bidding and subscription of bonds on the issuance system of PBOC.

Equity Underwriting and Sponsorship

We provide our clients with underwriting and sponsorship services, including IPOs and secondary offerings. As of December 31, 2015, Citi Orient had 52 sponsor representatives. In 2013, 2014 and 2015, we had acted as the lead managers in 14 equity underwriting transactions in China, with a total underwriting amount of RMB9,549.2 million. We charge underwriting commissions, sponsorship fees and other fees for the equity financing transactions at comparable market rates with reference to the deal size and market conditions. Our equity underwriting and sponsorship revenue was RMB35.9 million, RMB123.4 million and RMB150.8 million respectively in 2013, 2014 and 2015. In 2014, according to SAC, in terms of number of lead underwriting transactions, we ranked 2nd among joint venture securities firms with international investors. In 2015, Citi Orient had completed three IPOs and four secondary offering transactions, ranking 3rd among joint venture securities firms with international investors. As of December 31, 2015, Citi Orient had 17 IPOs pending CSRC review or listing, ranking 2nd among the joint venture securities firms with international investors, of which one transaction has been completed prior to the Latest Practicable Date.

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The table below sets forth the details of various types of equity financing transactions conducted by us as a lead underwriter:

	Year ended December 31		
	2013	2014	2015
IPO:			
Number of Issuance	-	1	3
Lead underwriting amount (RMB in millions)	-	581.2	1,070.1
Sponsorship and underwriting income (RMB in millions)	-	48.5	72.4
Secondary Offering:			
Number of Issuance	2	4	4
Lead underwriting amount (RMB in millions)	970.9	3,286.2	3,640.8
Sponsorship and underwriting income (RMB in millions)	27.7	50.6	60.1
Total:			
Number of Issuance	2	5	7
Lead underwriting amount (RMB in millions)	970.9	3,867.4	4,710.9
Sponsorship and underwriting income (RMB in millions)	27.7	99.1	132.5

We focus on client services by offering a full range of financing and advisory services to our clients. The following table sets forth selected equity underwriting transactions in which we acted as a lead underwriter during the periods indicated:

Issuer	Year	Our Role	Brief Introduction on the Transaction
Ningbo Jifeng Auto Parts Co., Ltd.	2015	lead underwriter	Completed IPO of RMB480 million as the lead underwriter and sponsor
Tiantong Holding Co., Ltd.	2015 and 2014	lead underwriter	Completed private placement of RMB310 million as the lead underwriter in 2014, successfully achieving premium pricing amid unfavorable secondary market environment. Completed private placement of RMB2.0 billion as the lead underwriter in 2015
Ningbo Sanxing Medical Electronic Co., Ltd	2015 and 2011	lead underwriter	Completed IPO as the lead underwriter and sponsor in 2011. Completed private placement and bond issuance as the lead underwriter, and provided services to the listed company on strategy formulation and acquisition in 2015
United Electronics Co., Ltd.	2014	lead underwriter	Completed private placement of RMB200 million as the lead underwriter for acquisition financing

Debt Underwriting

We provide debt underwriting, including underwriting and sponsorship services of corporate bonds as well as underwriting services for enterprise bonds, treasury bonds, financial bonds and others. We acted as the lead underwriter and raised funds totaling RMB105,244.2 million in 2013, 2014 and 2015. We charge underwriting commissions and fees for the debt financing services at comparable market rates with reference to the deal size and market conditions. Our debt underwriting revenue was RMB143.4 million, RMB237.4 million and RMB370.3 million in 2013, 2014 and 2015, respectively.

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

	Year ended December 31		
	2013	2014	2015
	(RMB in millions)		
Corporate bonds:			
Lead underwriting amount	3,600.0	9,460.0	24,400.0
Sponsorship and underwriting income	1.8	38.9	32.5
Enterprise bonds:			
Lead underwriting amount	6,100.0	12,926.0	10,850.0
Underwriting income	72.8	101.9	106.1
Financial bonds:			
Lead underwriting amount	3,000.0	6,894.9	4,122.9
Underwriting income	16.6	19.5	4.5
Tier-2 capital bonds:			
Lead underwriting amount	-	4,451.0	4,590.0
Underwriting income	-	6.2	7.6
Privately placement bonds:			
Lead underwriting amount	198.0	300.0	150.0
Underwriting income	6.3	3.0	1.5
Asset-backed securities:			
Lead underwriting amount	-	-	14,201.4
Underwriting income	-	-	11.5
Total:			
Lead underwriting amount	12,898.0	34,031.9	58,314.3
Sponsorship and underwriting income	97.5	169.5	163.7

Leveraging the synergies between our domestic business and the global brand and client resources of Citigroup, the U.S. shareholder of Citi Orient, we have developed many large corporate clients. The following table sets forth selected bonds underwriting transactions in which we acted as the lead underwriter during the periods indicated:

Issuer/Transaction	Year	Our Role	Brief Introduction on the Transaction
State Grid	2014	joint lead underwriter	Completed bond issuance of RMB10 billion as a joint lead underwriter
China Guangfa Bank	2014	joint lead underwriter	Completed issuance of tier-2 capital bonds of RMB10 billion as a joint lead underwriter
Panjin Shuangtaizi Economic Development and Investment Co., Ltd.	2015	lead underwriter	Completed issuance of “special bonds for construction of urban parking places of Panjin Shuangtaizi Economic Development and Investment Co., Ltd. for the year 2015” as the lead underwriter, the first special bonds public offering in China
Huifu Wuhan Housing Provident Fund Loan I-Asset-backed Securities	2015	lead underwriter	Completed issuance of asset-backed securities as the lead underwriter with personal housing fund loan as underlying asset, which was the first of its kind in China

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Issuer/Transaction	Year	Our Role	Brief Introduction on the Transaction
First Batch Consumer Credit Asset-backed Securities of Yongying in 2015	2015	lead underwriter	Completed issuance of asset-backed securities in the interbank market as the lead underwriter with personal consumption loans as underlying asset, the first of its kind in China, and also the first credit asset-backed security with revolving purchase structure in China
DBS Bank (China) Limited	2015	joint lead underwriter	Completed issuance of the first domestic tier-2 capital bonds of a foreign-owned bank of RMB2.0 billion as a joint lead underwriter

Financial Advisory Business

We provide corporate clients in the PRC with financial advisory services in areas such as M&As and restructuring, NEEQ securities recommendation and listing, enterprise reform and asset-backed securitization. In 2013, 2014 and 2015, fees and commission income from our financial advisory business amounted to RMB51.4 million, RMB99.9 million and RMB334.0 million, respectively. According to SAC, we ranked 13th among all securities firms in China in terms of net income of financial advisory business from M&As and restructuring in 2014, and 2nd among joint-venture securities firms with international investors. According to Wind Info, we ranked 11th among all securities firms in China in terms of number of M&A and restructuring transactions in 2015, and 1st among joint-venture securities firms with international investors. In 2014 and 2015, we were rated Class A for the financial advisory business among securities firms engaged in M&As for listed companies. Only 13 securities firms (including 2 joint-venture securities firms with international investors) have received such rating for two consecutive years.

We charge advisory fees by transaction type, transaction size and scope of engagement. We provide corporate clients with M&A advisory services from the perspective of industry positioning and strategy, and help various clients achieve strategic goals through industry consolidation. In 2013, 2014 and 2015, among the M&A transactions approved by CSRC that we completed, four were primarily related to industry consolidation in the PRC. Our financial advisory business also drove the growth of our private equity investment business and our securities investment business, further fostering client loyalty while generating trans-departmental cross-selling business opportunities and income. From 2014 to 2015, leveraging the advantages of Citi Orient investment bank and our other business departments, Orient Securities Capital Investment participated in and completed privatization of Shanda Games. Leveraging the global presence of Citigroup, the U.S. shareholder of Citi Orient, we actively explore potential overseas targets for our clients.

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The below table sets forth selected M&A transactions we have participated in 2013, 2014 and 2015:

<u>Transaction</u>	<u>Year</u>	<u>Our Role</u>	<u>Brief Introduction on the Transaction</u>
Acquisition of partial equity interest of ROE Visual by Unilumin	2015	financial advisor/ lead underwriter	Completed Unilumin’s acquisition of the 40% equity interest of ROE Visual; completed related financing as the lead underwriter; helped clients to enter into high-end innovative LED industry, achieve industrial upgrading and increase production capacities of competitive products.
Acquisition of Frontage in America by Tigermed	2014	financial advisor	Completed acquisition of 69.8% equity interest of Frontage in America for US\$50.3 million. During the acquisition, we designed the transaction proposal and structure which satisfied the needs of all parties involved, assisted the client in cross-cultural communication with the target company and submitted high quality application documents to regulatory authorities. The deal received the CSRC approval within 21 days of our application.
Acquisition of Shanghai Croton Media by Huace Media	2013	financial advisor/ lead underwriter	Completed acquisition of 100% equity interest of Shanghai Croton Media by Huace Media for RMB1.7 billion, and completed related private placement as the lead underwriter, which by far was the largest investment in the Korea media industry by a Chinese company.

In addition, since March 2013, we have been qualified to conduct recommendation and listing business on the NEEQ, and provide such services and share transfer services as a host securities firm. In 2013, 2014 and 2015, we recommended 6, 13 and 27 companies, respectively, to conduct listings and transfers on the NEEQ, as well as 2, 6 and 37 cases, respectively, of private placements.

We actively explore the potential to provide full life-cycle financial services to selected clients in the NEEQ securities recommendation and listing business together with other departments. When selecting target clients, we focus on their growth potential and core competitiveness in their niche market. Citi Orient refers and shares clients with our NEEQ market-making department, in order to seize the market-making business for such clients after the recommended listing. We are committed to developing long-term relationships with our clients and focus on the potential to provide a full range of follow-up financing and other services.

We are committed to providing all kinds of value-added services to clients, including securitizations with banking credit assets and leased assets as underlying assets for banking clients. We aim to assist clients in expanding financing channels and meeting customized financing needs through providing professional structured solutions, asset allocation advice and consulting services that are client-specific and asset-specific.

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Headquarters and Others

Our headquarters and others businesses mainly include our headquarters’ treasury business and overseas business. In 2013, 2014 and 2015, revenue from the headquarters and others businesses amounted to RMB244.8 million, RMB865.6 million and RMB1,424.7 million, representing 5.4%, 11.0% and 7.0%, respectively, of our total revenue. The following table is a breakdown of revenue from our headquarters and others businesses for the periods indicated:

	Year ended December 31,					
	2013		2014		2015	
	RMB	%	RMB	%	RMB	%
	(In millions, except percentage)					
Treasury business and others	227.3	92.9	806.5	93.2	1,345.6	94.4
Overseas business	17.5	7.1	59.1	6.8	79.1	5.6
Total	244.8	100.0	865.6	100.0	1,424.7	100.0

Treasury Business and Others

The treasury business and others mainly include headquarters financing and liquidity management. In 2013, 2014 and 2015, revenue from headquarters’ treasury business and other revenue amounted to RMB227.3 million, RMB806.5 million and RMB1,345.6 million, respectively.

Overseas Business

Our internationalization strategy is still in the initial stage and mainly conducted through Orient Finance Hong Kong, our Hong Kong located subsidiary established in September 2010. Through its wholly-owned subsidiaries Orient Finance Hong Kong holds licenses for dealing in securities, advising on securities, dealing in futures contract, asset management, advising on corporate finance and money lending. Its core businesses include securities transactions, leveraged finance, equity and debt underwriting and asset management. As of December 31, 2015, Orient Finance Hong Kong had a total of 88 employees. In 2013, 2014 and 2015, revenue of Orient Finance Hong Kong amounted to RMB17.5 million, RMB59.1 million and RMB79.1 million, respectively.

With our extensive client service capabilities, products and expertise in China, we plan to expand our international business to meet the demands of our clients for international financial services, particularly as more Chinese companies expand overseas and engage in overseas transactions. We believe that our overseas platform will create greater value for our existing and potential clients in both China and abroad.

MAJOR CLIENTS AND SUPPLIERS

We serve different institutional and individual clients across a spectrum of sectors. Our major clients range from large corporations and small- and medium-sized enterprises to retail and high net-worth clients. Our clients are primarily located in China. We expect to serve more overseas clients as we seek to further expand our overseas business in the future.

In each of 2013, 2014 and 2015, revenue attributable to our five largest clients accounted for less than 2.2% of our total revenue.

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To the knowledge of our Directors, as of the Latest Practicable Date, none of our Directors, Supervisors and their respective associates or any Shareholder that holds over 5% of our issued share capital has any interest in any of our five largest clients.

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

MARKET AND COMPETITION

As of December 31, 2015, there were 125 registered securities firms in China. The PRC securities industry is under strict supervision and securities firms must comply with a large number of supervisory regulations in every aspect, including business licensing, scope of products and services, business development and risk control. The competition has been intense in the PRC securities industry and will remain so in the future. In terms of net assets, the top five PRC securities firms only accounted for 21.6% of the total revenue in PRC securities industry in 2014. According to Wind Info and financial information of listed companies, we ranked 10th by net assets and operating income, 9th by net profit and 12th by total assets as of and for the six months ended June 30, 2015, among PRC securities firms.

In the securities brokerage business, we compete primarily with other PRC securities firms in pricing, the scope and quality of products and services offered. For the investment banking business, we compete primarily with other PRC joint venture securities firms as well as PRC commercial banks in branding, marketing and underwriting capacity, service quality, professional competence, financial strength and pricing. In the investment management business, we compete primarily with fund management companies, banks, insurance companies, trusts and other securities firms in the PRC in the range of products and services offered, pricing and quality of client service.

Some of our competitors may enjoy certain competitive advantages, including greater financial resources, more sophisticated management experience and more advanced information technology systems, wider geographic coverage and the ability to offer more financial products and services than us. In addition, with the deregulation of PRC securities industry, more competitors may enter the market and existing competitors may expand their market shares. We believe that the financial service industry in China will become increasingly competitive, which will accelerate transformative innovation and differentiated development of PRC securities firms. See “Risk Factors—Risks Relating to Our Business and Industry—We may not be able to compete effectively in the PRC securities industry” and “Risk Factors—Risks Relating to Our Business and Industry—Our business may be adversely affected by regulatory changes and measures in China and other jurisdictions where we operate.”

RISK MANAGEMENT

Overview

We established a comprehensive system for risk management and internal control. At the core of our risk management is the belief that “compliance creates value”, and we foster a culture in which risk management is the responsibility of every employee. We strive to integrate risk management, compliance management and internal control, covering all businesses, departments, branches and employees and the entire processes, from decision-making, execution, supervision to seeking feedback. We have received AA or A rating for six consecutive years (AA rating being the highest rating ever received by PRC securities firms) since 2010, when the CSRC started publishing the classification evaluation results for securities firms. Please refer to “Regulatory Environment” for factors considered by CSRC when assigning regulatory ratings.

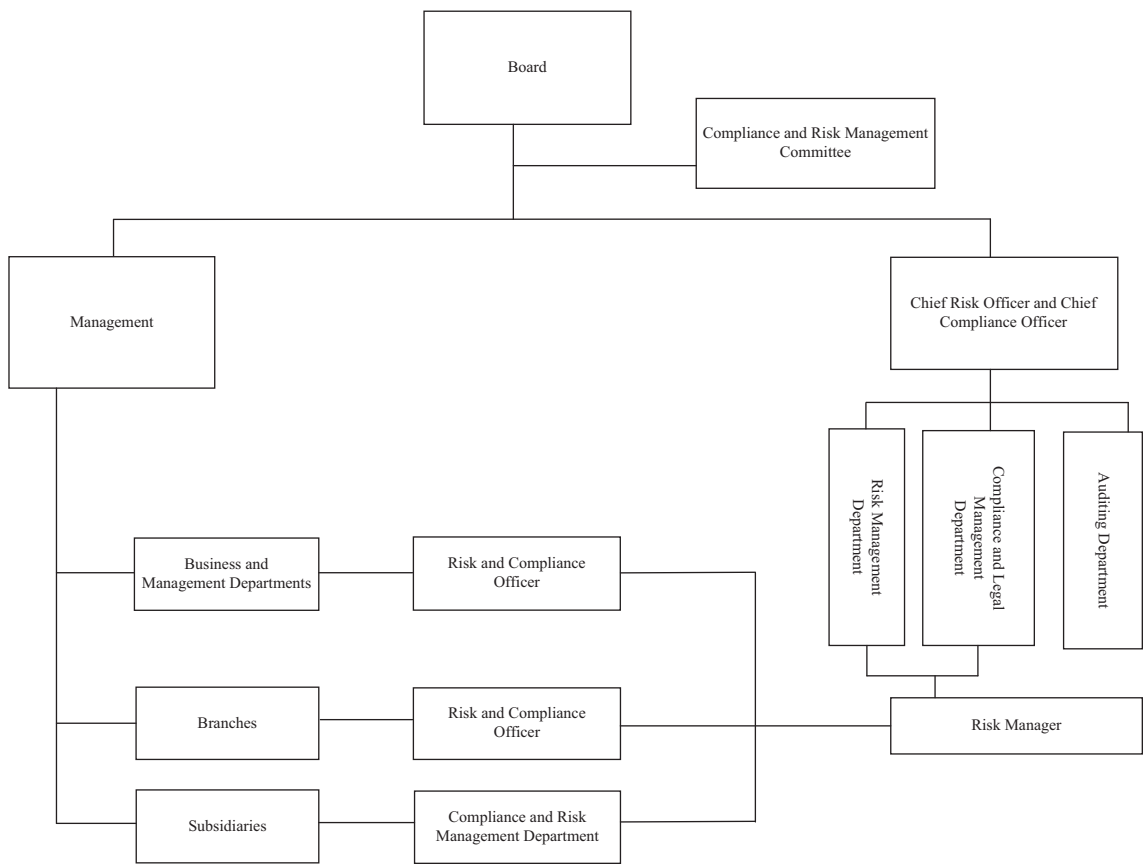
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Risk Management System

Our robust and effective risk management system features a “three lines of defense” approach. The first line of defense is the check and balance system on the important front-line positions in each operational department, branch and subsidiary where two persons with different roles and responsibilities are designated; the second line is inspection and supervision on the compliance and risk management matters by relevant functional management departments within their scope of duties; the third line is the overall risk supervision management on business departments and functional departments before, during and after each transaction, which is performed by risk supervision and management departments including Risk Management Department, Compliance and Legal Management Department and Auditing Department.

Pursuant to the requirements of the Guidelines for the Internal Control of Securities Firms (《證券公司內部控制指引》) and our own risk management system, we have set up a risk management structure with five levels, comprising: (i) the Board, (ii) the management, (iii) Chief Risk Officer and Chief Compliance Officer, (iv) each functional unit in charge of risk management, and (v) risk management function for each business department, branch and subsidiary. We conduct matrix management across different business segments and risk categories.

The following chart sets out our risk management structure:



Board

The Board is ultimately responsible for risk management and formulates our risk management system, oversees the compliance and risk management policies, and provides supervision, review and

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assessment on the compliance and risk management work. The Board has established the Compliance and Risk Management Committee to perform relevant functions of the Board regarding risk management.

The Compliance and Risk Management Committee is mainly responsible for: (i) reviewing and making recommendations on the overall compliance and risk management objectives and fundamental policies; (ii) reviewing, making recommendations on and approving the organizational structure and responsibilities in compliance and risk management; (iii) evaluating and making recommendations on the risks of major decisions which require the Board’s review, as well as mitigants for such risks; (iv) reviewing and making recommendations on compliance and risk assessment reports which require the Board’s review; and (v) other duties and functions determined by the Board. The Compliance and Risk Management Committee is comprised of five members and reports to the Board. These five members have over 15 years’ experience on average in the financial and securities industries and most have relevant background in finance or economics.

Management

The Management is responsible for implementing compliance management and risk management, establishing our fundamental management system, formulating concrete rules and guidelines and performing risk assessment and decision-making for major projects and innovation businesses as authorized by the Board. Our main rules and guidelines and risk assessment and decision-making regarding major operational projects in general need to be presented to the President’s Office for review. The President’s Office will make adjustments on the risk control indicators based on the overall risk tolerance before submitting to the Board for review.

The Assets and Liabilities Allocation and Risk Control Committee is established under the President’s Office. Its major responsibilities include budget management, assets and liabilities allocation and liquidity management, and the entire risk management process of the Company. As of December 31, 2015, the Assets and Liabilities Allocation and Risk Control Committee comprised 23 members, headed by the President.

In addition to the Assets and Liabilities Allocation and Risk Control Committee, under the President’s Office are the Investment Business Committee, the Sales and Wealth Management Committee, the Innovation Development Committee, the IT Strategy Development and Governance Committee and the OTC Management Committee. Each business department committee serves as the professional decision-making institution as well as the risk management institution within its business sector, promoting specific departmental risk management. The committees make decisions by assessing risk appetite for the specific business and focusing on dynamic control with the view of keeping all kinds of risks within risk tolerances.

Chief Risk Officer

The Chief Risk Officer, nominated by the Chairman and appointed by the Board, is responsible for overall risk management. Mr. Yang Bin, with over 18 years’ experience in financial regulation and the financial industry, serves as our Chief Risk Officer.

The Chief Risk Officer is mainly responsible for: (i) holding regular risk control meetings, supervising the implementation of risk management policies and procedures, and monitoring the solving of the issues identified through operations and management; (ii) organizing assessment of the

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internal and external environment as well as various kinds of risks, making recommendations to deal with any existing risk and reporting to the Board and the Management on a routine basis; (iii) promoting the establishment of an overall risk management information system and quantitative risk management indicator system; (iv) establishing a professional team for risk management, conducting performance evaluation on departments in charge of risk management and organizing departments in charge of risk management in assisting relevant departments to carry out performance evaluation of risk management in all our departments and branches; and (v) other duties regarding risk management specified by the Board.

Chief Compliance Officer

The Chief Compliance Officer is in charge of compliance management of the Company. At present, the Chief Compliance Officer is concurrently served by the Chief Risk Officer. The Chief Compliance Officer is mainly responsible for: (i) conducting compliance examination on the Company’s internal management system, major decisions, new products and new business plans, as well as the materials or reports submitted by the Company to the relevant regulatory authorities; (ii) supervising the Company and its staff in respect of the compliance of their operation, management and practice, and conducting internal inspections; (iii) reporting promptly to the Board of Directors, the Supervisory Committee, management, regulatory authorities and self-regulatory organizations in the industry the conduct of the Company in violation of laws and regulations or potential non-compliance risks, presenting opinions promptly to the Company to request the violating party to cease the conduct and make rectification, and cooperating with the securities regulatory authority and self-regulatory organization to perform examination and investigation on the Company; (iv) organizing internal compliance training and providing compliance management consultation; (v) organizing and implementing the systems of anti-money laundering and Chinese Walls of the Company; and (vi) handling such complaints and reports involving the act of the Company and its staff in violation of laws and regulations.

Functional Units in Charge of Risk Management

The functional units in charge of risk management execute overall risk management. The Chief Risk Officer is responsible for their risk management related work, and the Chief Compliance Officer is responsible for their compliance management related work.

According to relevant provisions of our internal risk management, the duties of each functional units are as follows: (i) the Risk Management Department is responsible for establishing and improving our risk management system while also serving as the department in charge of our quantitative market risk and credit risk management and the monitoring and coordinating department for liquidity risk; (ii) the Compliance and Legal Management Department serves as the department in charge of compliance risk, legal risk and operational risk; (iii) the Capital Management Department is the department in charge of liquidity risk management; (iv) the System Operation Department and the System Development Department are the departments in charge of our IT risk management; (v) the Office and the Board Office are the departments in charge of reputational risk management; (vi) the Human Resources Management Department, the Inspection Department and the Risk Management Department are the departments in charge of ethical risk; (vii) the Auditing Department performs independent audits and evaluation on the compliance of our operational activities, the effectiveness of overall risk management and internal controls, and the truthfulness, accuracy and timeliness of financial information; (viii) the Human Resources Management Department, together with the Risk

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Management Department, the Supervisory Department and the Auditing Department have established a sound performance evaluation mechanism linked with the effectiveness of overall risk management.

Risk Management Functions of Business Departments, Branches and Subsidiaries

The front-line positions in each business department and branch are the first line of defense for the Company in carrying out overall risk management and preemptively controlling various potential risks in the course of business. The responsible person in each business department and branch is responsible for its overall risk management. The main duties of each business department and branch with respect to risk management include: (i) preparing and implementing the processes for relevant business strategies and operation of the business unit, the risk management system and risk monitoring indicators; (ii) identifying, evaluating and monitoring the main risks related to the business unit and proposing the corresponding improvements; (iii) strictly complying with the risk management system and processes, and reporting various risk matters in accordance with relevant requirements; and (iv) cooperating with and supporting each risk management function and position.

A Risk and Compliance Officer is deployed in each business department and branch. The main duties of a Risk and Compliance Officer include: (i) promoting the dissemination of internal regulations and the preparation of system and processes of the department and supervising the implementation thereof; (ii) reviewing and examining the relevant risk management, compliance and internal control of the department, and reporting to the department head and risk management functional units of the Company; (iii) participating in and supervising the implementation of daily management and control over various risks within the department including setting various risk indicators and threshold of the department, etc., and providing cooperation in risk indicator monitoring, early warning and relevant risk countermeasures; and (iv) facilitating cooperation in connection with any regulatory inspection involving the department, and overseeing the implementation of relevant regulatory and rectification requirements.

The front-line positions of each subsidiary are its first line of defense in carrying out overall risk management and proactively controlling various potential risks. Based on the regulatory requirements and our relevant procedures, each subsidiary has established a comprehensive risk management system that is suitable for its own development strategies, including an operable management system, sound organization structure, reliable IT system, quantitative risk indicator system, dedicated talent team, effective risk response mechanism, smooth information reporting channel and a healthy risk management culture. We supervise compliance and risk management at our subsidiaries from various perspectives, such as information walls, net capital management, information disclosure, internal controls, and classification-based evaluation.

Risk Management Process

We have established a comprehensive risk management process to identify, evaluate, mitigate, monitor, examine and report risks:

- **Risk identification:** we have a comprehensive and multi-level risk monitoring mechanism, under which, the business departments and the risk management functional units perform risk identification. We monitor the dynamic conditions of the risk profile, fund settlement, fund management and financial accounting of each business through the monitoring system. We make investment decisions and manage risk through the

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Investment Decision Committee and investment teams. All of our businesses are currently included in the monitoring system to achieve full risk coverage;

- **Risk assessment:** we have set risk assessment compliance indicators based on the regulatory requirements and specific indicators of risk assessment as determined by actual circumstances, so as to establish and improve the risk monitoring indicator system and risk measurement model for a variety of businesses and assess the risk points and units of each business. Major business departments have established its risk management indicator system in light of actual needs. The risk management function units have formulated a systematic process to set the monitoring threshold based on the risk control indicators of major business departments and the requirements of regulatory authorities. Meanwhile, the risk management functional units research and apply risk measurements, and the Auditing Department has formulated a standard quantitative rating system for internal auditing;
- **Risk mitigation:** on the basis of risk identification and assessment, we have developed a series of processes and measures specific for each business segment, type of risk and the risk level of each risk point. We have also established corresponding contingency plans for risks that may cause material adverse effects;
- **Risk monitoring and examination:** the front-line business departments conduct self-inspection and report their results for review. The business departments have the main responsibilities for risk management. The business support departments inspect and supervise matters relating to risk management within their scope of duties. The risk management functional units conduct comprehensive supervision and examinations with respect to potential and existing risks at each business department. The Auditing Department regularly performs audits and examinations afterwards at each front-line business department and business support department, and evaluates compliance effectiveness and makes appropriate modifications when necessary; and
- **Risk reporting and feedback:** our comprehensive risk management report system is a system which involves all Risk and Compliance Officers at each of our departments and branches and all the staff at risk management functional units or positions of our subsidiaries, with risk management functional departments as the principal reporters to report to the Board, the management and the Chief Risk Officer.

Monitoring and Management of Major Risks

We monitor and manage major risks such as market risk, credit risk, liquidity risk, operational risk, IT risk, reputational risk, compliance risk, legal risk and reputational risk.

Market Risk

Market risk is the risk of loss arising from fluctuations in stock prices, interest rates and exchange rates in the capital markets. We face market risk primarily in our securities investment business. Our business departments, branches and subsidiaries are the first line of defense against market risk. Our risk management functional units are responsible for overall market risk management.

To enhance the management of market risk, we adopt the following measures:

- Adopting mark-to-market practice, liquidity-impacted trading cost, concentration analysis and quantitative risk model and optimization technology, to manage size, leverage, risk exposure, duration and to establish dynamic-tracking stop-loss mechanisms;

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- Identifying the key factors affecting portfolio returns through sensitivity analysis, and evaluating the tolerance of investment portfolios to extreme market volatility by using scenario analysis and stress-testing;
- Ensuring diversified and scientific asset allocation, leveraging derivatives such as stock index futures to hedge against risks, and using various investment strategies for hedging;
- Closely monitoring the macroeconomic indicators and trends and major development in economic policies, and evaluating the systematic risk on investment that may arise from changes in macro factors; and
- Establishing an organization for crisis decision-making, implementation and delegation of responsibility, developing contingency plans under various predictable extreme circumstances and managing such crises by grading their severity.

As of December 31, 2013, 2014 and 2015, the VaR of our investment portfolios (calculated as 99% of confidence level and one day of observation period) amounted to RMB159.7 million, RMB179.6 million and RMB676.1 million, respectively. As of December 31, 2015, our VaR increased compared with same periods of 2013 and 2014, mainly due to the Company’s response to the proposal of stabilizing the stock market by increasing the position of our securities investment. The dramatic volatility of A share market starting in June 2015 also contributed to the increase in VaR.

Credit Risk

Credit risk mainly refers to the risk of loss arising from a counterparty’s or a debtor’s failure to meet its contractual obligations in a timely manner. Currently, we face credit risk primarily from the credit risk of borrower in the securities financing business and from bond issuers in fixed income investment in the securities investment business.

We have established a separate credit risk management system for clients, counterparties and bond issuers, under which we assign and regularly update credit ratings to them, using a combination of their external credit ratings with their credentials, trading record, credit record and delivery default record. In margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions, we have developed client credit rating, credit management, collateral management and monitoring report systems and respond to the potential risks in a timely manner by real-time dynamic position-closing mechanisms. Meanwhile, we have strengthened the fundamental analysis of individual bonds we hold and established an internal bond rating system to prevent credit risk arising from bond investments.

Liquidity Risk

Liquidity risk refers to securities firms’ potential failure to obtain sufficient funds at reasonable cost to repay liabilities in a timely manner, meet other payment obligations and satisfy capital requirements in the normal course of business. Our objectives in liquidity risk management are to establish a sound liquidity risk management system and to effectively identify, measure, monitor and control liquidity risk, to ensure that our liquidity demand can be met at reasonable cost and in a timely manner.

We have set up dedicated liquidity risk management functional units, which are responsible for the liquidity management, financing and interest rate management of our own funds. We manage and

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use the funds in a centralized manner and, strategically expand and gradually improve the establishment of liquidity management system. We also optimize the efficiency and returns on use of funds, and improve our ability to prevent liquidity risk. We have established an appropriate early warning indicator system, including liquidity coverage ratio and net stable funding ratio, to monitor on a daily basis the particular circumstances or events that could potentially lead to a liquidity crisis. Furthermore, we have established a net capital supplementary mechanism to supplement or increase the net capital or short-term working capital as required by our business development through issuance of subordinated bonds, short-term financing bonds, inter-bank lending, etc. Stress-testing is conducted on routine and ad hoc basis to test the risk control indicators of our net capital and our liquidity to identify and manage liquidity risk in advance.

Operational and Compliance Risk

Operational risk refers to the potential loss directly and indirectly arising from defective or problematic internal operational procedures, personnel, systems or external events. Compliance risk refers to the risk that a securities firm may be subject to legal sanctions, supervisory measures or self-disciplinary measures; or suffer from economic loss and reputation damage due to violation of law, regulations or rules as a result of its business activities or its employees' actions.

Firstly, with respect to operational risk and compliance risk, we have established a variety of management regulations primarily based on our internal control standards. We have also standardized the operational processes and established counter-measures in response to operational risk and compliance risk. Secondly, by taking the opportunity presented by annual internal control self-evaluation, various inspections by regulatory authorities and annual internal control audit by accounting firms, we arrange for each department to enhance its self-examination and rectification measures. The compliance departments examine the internal control construction and compliance management, and the Auditing Department increases audit frequency and thoroughness according to the requirements of internal control. We prioritize the role of Risk and Compliance Officers of each department, to enhance re-examination, establish operational specifications, improve the reporting system and strengthen the management of compliance risk and operational risk. We have also strengthened our control procedures over access to and handling of our Company seal and related authorizations. In addition, we have established quantitative limits to help manage in a systematic way operational risks related to market risk, credit risk and liquidity risk.

Furthermore, we will make information disclosures strictly in accordance with the applicable laws and regulations and strive to enhance the risk factors disclosures to potential investors and related risk education.

IT Risk

IT risk mainly refers to the economic loss or reputation damage to securities firms when damages or losses of the clients are caused by failures or errors in the IT systems. Such failure may include market quotation interruption, trading halts, securities-bank account transfer disruption, or failure to conduct transactions in a normal, orderly, effective and smooth manner as a result of failure in capabilities or operations. It also includes the risk of causing economic loss to the investors due to miscalculation of their trading data caused by the defects in software design, as well as the risk of investors' trading data being destroyed, modified or disclosed technologically. We have set up an IT Strategy Development and Governance Committee, and formulated IT management measures, rules of

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procedures on IT Strategy Development and Governance Committee and computer information system security management measures, etc., preventing information technology risk through organization and system establishment. In May 2013, we split the IT Centre into the System Research and Development Department and the System Operation Department. Through separation of development and operation maintenance, we have enhanced our ability to mitigate our IT risk. We have imposed authorization requirement over individual information systems within an integrated authorization management system, established data backup, disaster backup and a contingency plan system, and also established related systems to effectively control IT risk.

Legal Risk

Legal risk refers to the potential losses arising from failure to conform with legal provisions as a result of operating activities or due to external legal events. Our Compliance Management Department is the department responsible for the management of our legal risk. We prevent legal risk through contract management, compliance review, legal services, legal training, assistance in execution and litigation, dispute management and other measures. Our compliance and risk management functional departments review external contracts and agreements entered into by the Company, provide legal and consulting services for various businesses, and provide legal advice or opinions with respect to new products, new business and significant business strategies, which to some extent help to prevent and mitigate the legal risk in our operation.

Reputational Risk

Reputational risk mainly refers to the risk that we may be subject to negative criticism by relevant parties due to our operational management and other actions or external events. We have developed contingency plans to manage public relations and set up a public relations emergency management team. We have defined responsibilities and working procedures which clearly specify the time limit to address emergencies. We have implemented a reporting system based on the requirements of listed companies and formulated board secretary working rules. By establishing a sound system of information disclosure by the Board Secretary, we seek to mitigate our reputational risk.

Risk Management and Internal Control Measures of Major Businesses

We have implemented a series of risk management and internal control measures to manage risks related to our business activities.

Wealth Management Business

Securities brokerage business

We have comprehensive internal rules and guidelines for our securities brokerage business to ensure its compliance with relevant laws and regulations and to standardize our securities brokerage business.

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The major risks we monitor in our securities brokerage business include credit risk, operational risk and compliance risk. We manage such risks primarily through the following measures:

<i>Standardized clients’ account management</i>	We have developed an account management system that satisfies the requirement on third-party custody and standard procedures. Our system features centralized account management and incorporates the regulatory requirements on log-in verification, client information synchronization, image management, anti-money laundering, etc. We currently provide services of offsite accounts opening, including accounts opening with witness and online account opening. We have also formulated relevant rules and the procedures to review and handle such account opening processes. Furthermore, we have effectively managed the offsite accounts opening from the main aspects including business process, personnel qualifications management, blank certificate management, centralized review, centralized client revisit, etc.
<i>Knowledge of clients’ risk profile</i>	We have incorporated the requirements on investor suitability analysis into the business system and operating procedures. We have established a client risk tolerance evaluation system to evaluate the risk tolerance of the clients based on a series of factors, including their financial position, investment experience and investment preferences, and divide their risk tolerances into five levels, to provide them with financial products that match their risk tolerance levels and preferences. We also have established a client behavior analysis system, which enables a synchronization of the evaluation system, behavior analysis system and transaction system, to meet the requirements on investor suitability management in real time.
<i>Third-party custody of clients’ funds and account monitoring</i>	According to the relevant laws and regulations on custody of clients’ funds and account monitoring, we open accounts in qualified commercial banks for centralized deposit and management of clients’ transaction settlement funds and monitor the operation of these accounts to ensure the compliance with applicable laws and regulations.
<i>Electronic management platform</i>	We have developed an electronic management platform to manage the sales personnel and record the whole process of sales management.
<i>Real-time monitoring system</i>	Our Wealth Management Business Department and each of its branches, Compliance and Legal Management Department, and Risk Management Department jointly and cooperatively control and monitor the clients’ irregular trading behaviors at front end and conduct self-discipline management. We appoint dedicated personnel to conduct real-time monitoring of the clients’ securities trading behaviors, guide the clients to transact lawfully and implement intraday limit on clients when necessary, in accordance with regulatory authorities’ requirements.
<i>Investor education and advisory</i>	We have established relevant systems and wealth management advisory service platform. Under the management of the Wealth Management Business Department, the wealth consultant team of each branch provides education services to its clients and the potential securities investors and proper investment advice to the contractual clients, thus the contract signing by clients and provision of services to them can be recorded into the system.
<i>Regular and irregular audit</i>	The Auditing Department regularly and irregularly audit the internal control, daily operation, financial and accounting management and business performance of the securities brokerage department and branches.

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<i>Strict management of financial products sales</i>	To manage the risk concerning the sales of third-party financial products, we have formulated corresponding system and operating procedures, which specify the respective duties of each department in sales of financial products, realize the proper separation of due diligence on the issuers and their products and sales of products and the proper separation of product introduction and sales and back-office clearing and settlement. Therefore, we can effectively manage the major working modules such as product due diligence, evaluation, approval, training, listing, promotion, clearing and settlement and revisit, etc.

Futures brokerage business

We conduct our futures brokerage business through our wholly-owned subsidiary Orient Securities Futures. According to the regulatory requirements and business development needs, Orient Securities Futures has improved its internal regulations and rules, and strengthened control on authorization management, clients’ irregular transaction management, management on the policies for professional conduct for employees and anti-money laundering management, which further improved the internal control system of the Company.

Orient Securities Futures manages the risks related to the futures brokerage business through the following measures:

<i>Account management</i>	Orient Securities Futures requires verifying clients’ identification in the account-opening process. After clients are fully informed of the risks of futures trading and assessed for their suitability, they will be required to enter into futures brokerage contracts and other risk disclosure documents. In order to ensure that proper services are provided in the best interest of clients, Orient Securities Futures classifies its clients through an assessment system and offers services and adopts risk management measures accordingly.
<i>Client margin deposits management</i>	Orient Securities Futures manages client margin deposits and its own funds separately under segregated accounts. Collateral ratios are promptly adjusted based on the client’s creditworthiness and market conditions. Clients will be required to provide additional deposits or to close out the positions if the required collateral ratio is not met.
<i>Trading</i>	Orient Securities Futures has formulated various policies to regulate futures trading. For example, employees are prohibited from entering into non-compliant entrustment arrangements, guaranteeing profits or participating in futures trading. Orient Securities Futures maintains trading records of clients.
<i>Real-time monitoring</i>	Orient Securities Futures monitors risks on a real-time basis during the trading process, focusing on high-risk accounts and irregular trading activities, such as opposite positions in a sharply volatile market and positions close to an adjustment period. The failure of clients to supplement margin deposits in time will result in forced liquidation of positions. In addition, Orient Securities Futures provides real-time warnings on irregular trading activities and other anomalies.

Securities financing business

Margin financing and securities lending business

The major risks in our margin financing and securities lending business include credit risk, interest rate risk, operational risk and compliance risk. We also manage market risk and liquidity risk related to the business. We have established a net capital-based monitoring system, which monitors and controls the size of our margin financing and securities lending business on a daily basis based on predetermined parameters.

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We aim to prevent our business from being overly concentrated on any single client or stock. In general, we conduct our margin financing and securities lending business in accordance with the following predetermined parameters:

- the size of business from any single client of margin financing may not exceed 5.0% of our net capital, with the warning threshold being 4.0%;
- the size of business from any single client of securities lending may not exceed 5.0% of our net capital, with the warning threshold being 4.0%; and
- the market value of any single collateralized stock we receive from clients may not exceed 20.0% of such stock’s total market capitalization, with the warning threshold being 16.0%.

We have established a client selection and credit assessment system for our margin financing and securities lending business. Our securities financing department is responsible for conducting due diligence on clients’ creditworthiness and preparing a due diligence report accordingly. This due diligence report generally includes risk identification and mitigating measures. The relevant staff from the securities financing department are responsible for the preliminary review of credit information provided by clients so as to understand our clients’ identities, personal assets and income, investment experience and risk appetite, on which the proposal on trading qualification and limits are based. The requirement on the minimum balance of the securities accounts of new clients for our margin financing and securities lending service, is that the daily securities assets for the latest 20 trading days shall be no less than RMB500,000. Meanwhile, the clients of margin financing and securities lending service also must meet the requirement of having stock trading records for at least six months when opening their accounts. Our risk control department will review the due diligence report and its conclusions. Our review will focus on clients’ credit standing, results of the underlying securities issuers, and market and liquidity risks of the underlying securities.

We monitor the collateral ratio of clients engaged in margin financing and securities lending business on a real-time basis and close out client positions, if necessary. The collateral ratio is calculated as the ratio of total margin account balance of clients, which includes cash and securities held in the margin account, to the margin balance of clients, which is the sum of margin loans extended, securities sold short and any accrued interest and fees. As of December 31, 2015, the overall collateral ratio in margin financing and securities lending business was 290.4%. Based on clients’ credit ratings, we conduct differentiated management on their deposit ratios, which ranges from 50.0% for clients with highest ratings to 140.0% for those with lowest ratings. We rate our clients based on their account balances by considering their historical profitability and trading activities. We also apply discount to the underlying securities based on the creditworthiness of the underlying securities issuers and underlying securities’ quality, and the discount factor may be 0%-70.0% of the market value of the underlying stock or 0%-90.0% of the market value of the bonds.

When a client’s account falls into the “alert” status (i.e. the client account has a collateral ratio below 150% but not lower than 130% upon day-end clearing), we will send them an alert. When a client’s account falls in the “risk” status (i.e. the client account has a collateral ratio lower than 130% upon day-end clearing), we will send them a notice requesting them to increase collaterals within the specified period as agreed in the contract. If the clients fail to provide the required collaterals as scheduled or repay the debt when it is due, we can dispose of their collaterals as agreed. According to the requirements of the relevant regulations, the duration of each margin financing and securities lending transaction shall not exceed six months, and shall not be extended. We have strictly followed

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these requirements. After the significant volatility of A share market in June 2015, the restriction on the duration extension has been relaxed by the regulator. However, for the purpose of risk control, we have set requirements on the collateral ratio for clients qualified to extend the duration. Only clients whose ratio exceeds 170% are allowed to apply for extension of the duration.

Collateralized stock repurchase and repurchase agreement transaction business

For collateralized stock repurchase business, our business department conducts investigation and analysis on the creditworthiness, use of funds, repayment schedule, condition of pledged securities and project feasibility in accordance with due diligence requirements to prepare due diligence report and submits the transaction to the Company for review. Upon approval, we determine the credit to be extended to the clients. After financing is made, we will monitor our client accounts, the underlying securities of the transactions and use of funds to assess the ability and probability of repayment by our clients in a timely manner, so as to effectively prevent and control business risks.

In addition, we monitor the collateral ratio of our clients engaged in collateralized stock repurchase and repurchase agreement transactions on a real-time basis. The collateral ratio of collateralized stock repurchase is the ratio of the market value of equity pledged by clients to the loans and accrued interests of the clients and the collateral ratio of repurchase agreements is the ratio of the market value of securities sold by clients to the loans and accrued interests of the clients. As of December 31, 2015, the overall collateral ratio of our collateralized stock repurchase business was 359.1%, while the overall collateral ratio of our repurchase agreements business was 381.1%.

For collateralized stock repurchase business, we have set the following “alert” collateral ratios and minimum collateral ratios based on the category of underlying securities and the nature of shares. Also, we can make adjustments according to the underlying securities and financing entities.

Category/nature of the underlying securities	Minimum collateral ratio	“Alert” collateral ratio
Bonds	105.0%	110.0%
Funds	110.0%	115.0%
Stocks not subject to trading restrictions	130.0%	150.0%
Stocks subject to trading restrictions	140.0%	160.0%

For repurchase agreements transactions business, the “alert” collateral ratio is 150.0% and the minimum collateral ratio is 130.0%.

For collateralized stock repurchase and repurchase agreement transaction business, the collateral ratio of the outstanding repurchase agreement transactions has the corresponding trading status as follows:

Conditions	Trading status
Collateral ratio $\geq$ alert value	Normal
Alert value $>$ collateral ratio $\geq$ minimum value	Alert
Minimum value $>$ collateral ratio ≥ 0	Risk

When “alert” status appears, we will send clients the “alert notice” requiring them to monitor risks and prepare to repurchase in advance or take other collateral coverage measures. When “risk” status appears, we will send clients the “alert notice of default” specifying that they shall take collateral replenishment measures to avoid default. The collateral coverage protective measures that the clients engaged in collateralized stock repurchase can take include repurchase before the due day and

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replenish collaterals. The protective collateral coverage measures that the clients engaged in repurchase agreements transactions can take include repurchase and conduct additional transactions. If clients fail to take collateral coverage measures as required, we will dispose of underlying securities according to default procedures.

Investment Management Business

Asset management business

We are engaged in asset management business through our wholly-owned subsidiary Orient Securities Asset Management. Orient Securities Asset Management has established a standard corporate governance mechanism and rules of procedure, which clearly defines the responsibility and authorization in decision-making, execution and supervision, etc., thus forming a scientific and effective division of responsibilities and checks and balances, in order to respond to market risk, credit risk, liquidity risk, operational risk and compliance risk. Orient Securities Asset Management has set up a risk control committee under the management to manage compliance risk, operational risk and ethical risk, and conduct risk assessment on the innovative business. The risk control committee meetings are held regularly with effective operation to discuss the implementation of the main internal control and risk points, conduct risk assessment on the innovative business and continue to improve the internal control organizational system.

Orient Securities Asset Management manages investment portfolio risks through the three stages: before, during and after the event. Before the event, it conducts risk assessment on new business or new products and proposes recommendations on risk management. Meanwhile, it sets investment proportion threshold in the risk control system in accordance with laws and regulations, product contracts, and its rules. During the event, it supervises the implementation of risk management system and risk thresholds, conducts risk review on the key business process, and timely alerts and handles anomalies such as indicators beyond the standard. After the event, it reports and concludes risk management, conducts attribution analysis on the investment performance, inspects and checks on each business key point and supervises the rectification of the existing issues.

To develop business in overseas market, Orient Securities Asset Management has formed a dedicated oversea working group to study the overseas securities market, established investment trading and risk control systems for cross-border business such as “Shanghai-Hong Kong Stock Connect” and developed the corresponding system support (including cross-border investment trading management system, valuation system, risk control system), so as to ensure the smooth development of the overseas business in terms of staffing, system completion and system construction.

The primary risk management measures of Orient Securities Asset Management are as follows:

- **Staff.** Orient Securities Asset Management has appointed a chief risk officer, a compliance chief, and a compliance chief for mutual fund management businesses. Orient Securities Asset Management has also established a compliance and risk management department which is responsible for risk supervision and management and exercises its corresponding functions of compliance management, risk management and supervision independently;
- **Approval of new business and new products.** Orient Securities Asset Management has established a compliance risk management mechanism for new business and new products. For new business, if the feasibility of the investment range, the reliability of the risk control indicators and the reasonability of the valuation have been fully demonstrated

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by each department at the early stage, the new business and new products passing the project initiation procedures will be submitted to the products committee of Orient Securities Asset Management. The committee will conduct overall risk evaluation, considering the evaluation results of project initiation in combination with the risk exposure of the new products, as well as the risk control capability of Orient Securities Asset Management. For projects passing the evaluation, the risk control indicators will be set in the system after the detailed discussion between the compliance and risk management department and the operating department. In addition, Orient Securities Asset Management continues to track the risk profiles of new business and new products by establishing a grading alert system, thus achieving the entire-process risk management of the company’s new business and new products;

- **Decision-making and authorization.** Orient Securities Asset Management continually improves the independent decision-making mechanism, and has established an independent investment decision-making committee. In order to improve the level of investment decision-making and control risks effectively, Orient Securities Asset Management adopts investment principal system and conducts business operations within the scope of overall investment plan and scheme approved by the investment decision-making committee. The investment principal is responsible for establishing investment strategies based on the decisions made by the investment decision-making committee and in strict accordance with relevant investment restrictions. Dealers carry out investment transactions according to the investment instructions of the investment principal;
- **Risk control.** To improve the effectiveness of risk management, Orient Securities Asset Management has authorized its compliance and risk management department to implement effective monitoring and comprehensive management before, during and after the event in relation to each investment portfolio. The compliance and risk management department has set investment range, investment proportion and fair trading thresholds for each investment portfolio in the investment trading system in accordance with laws and regulations, product contracts, and its internal control system. All the investment trading instructions must be verified against the risk control indicators before they can be accepted by the trading department. In the process of trading, Orient Securities Asset Management strictly implements fair trading system. In addition, it strengthens the detection and control of the anomalies by after-day monitoring, and reports and concludes risk management events, inspects and checks on each business key point and supervises the rectification of existing issues;
- **Information walls and conflict of interest.** In order to prevent conflict of interest and inappropriate use of insider information, Orient Securities Asset Management has established the system of information walls and preventing conflict of interest, which mainly aims at preventing conflicts of interest between Orient Securities Asset Management, the investment banking business, research business and securities investment business of the Company and different clients to whom Orient Securities Asset Management has offered services. To ensure fair treatment for different clients’ interests, Orient Securities Asset Management has established the fair trade system to regulate the trading process. If the same investment product is chosen by different investment portfolios, Orient Securities Asset Management will conduct centralized trading and make fair allocation; and

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- **Information disclosure.** Orient Securities Asset Management has established a sound external reporting system. In strict compliance with the regulatory requirements, it submits a management report to the regulatory authorities on an annual and quarterly basis, and timely informs the clients of any circumstances during the duration of the products which will have material impact on the ongoing operation or the interests of the clients or other material events, thus keeping the information open, transparent and complete.

Fund business conducted by China Universal

We are engaged in fund management business through our associate China Universal. It has established the risk management committee whose members are industry experts at home or abroad. China Universal focuses on improving compliance, education and professional management system, reviews and modifies the management system periodically based on the latest market changes and regulatory requirements, and makes corresponding adjustments in accordance with laws and regulations and business conditions.

In terms of the prevention of conflicts of interest, we have set up a strict internal control system. Our internal controls include investment management business control, information disclosure control, IT system control, accounting system control and internal audit control. We have established the mechanism of separating incompatible duties, robust accountability system, standardized post management measures, integrated system for information security, strict authorization control, effective risk prevention system and rapid response mechanism. This would ensure that the fund administrators can carry out business in compliance with national laws, regulations and industry supervision rules, while preventing and mitigating operational risks. This is intended to improve operation and management efficiency, and ensure the stability of business and the safety of the entrusted assets, in order to achieve sustainable, stable and healthy development.

Private equity investment fund

We engage in private equity investment business via our subsidiary, Orient Securities Capital Investment. Orient Securities Capital Investment has formulated well-defined policies and regulations for the business process and internal control measures.

Orient Securities Capital Investment has established a three-level compliance and risk management system covering decision-making, execution and monitoring process. Decision-making process is in the charge of the Board and the equity investment committee of Orient Securities Capital Investment; monitoring system is in the charge of the board, supervisors, compliance and risk control department of Orient Securities Capital Investment. Execution system covers the company’s management, compliance and risk control department and business management departments. Orient Securities Capital Investment has set up compliance and risk departments and risk control positions to manage and control private equity investment business risks. The persons at the above positions are independent from investment managers. Orient Securities Capital Investment has veto right on the investments of its funds.

Orient Securities Capital Investment’s investment business shall be carried out in accordance with the provisions of its internal rules and regulations to fulfill appropriate investment decision-

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making process requirements. All the investment projects of Orient Securities Capital Investment shall be reviewed and approved by the Board or equity investment decision-making committee to control project risk.

We are engaged in private equity fund investment business through Orient Securities Capital Investment’s subsidiary. The risk control of this business is incorporated into the risk control system of Orient Securities Capital Investment and under its unified management.

Securities Sales and Trading

Securities investment business

Our main risks of securities investment business include market risk, credit risk, liquidity risk, operational risk and compliance risk. The Board determines the overall allocation of assets and liabilities related to the investment of equity and fixed income securities every year. Within the allocation of assets and liabilities, the Equity Securities Investment Committee and the Fixed Income Securities Investment Committee adjust the investment strategies from time to time in accordance with market conditions to guide the actual trading activities.

The investment decision-making process

In order to strengthen our management of the securities investment business, ensure scientific, efficient and orderly implementation of investment decisions within the scope of authorization and conduct securities investment business, we have formulated relevant management rules and established a five-level management system of securities investment business:

- Shareholders’ meeting: the purpose of Shareholders’ meeting is to determine the total size of securities investment business;
- The Board: the Board is responsible for determining the overall scale of each category of securities investment business, the risk limits and risk management decisions under the authorization of Shareholders’ meeting;
- President’s Office: the President’s Office is responsible for making annual allocation strategy of assets and liabilities for each securities investment business according to the business size and the risk limits determined by the Board, and implementing those strategies upon the review and approval of the Board;
- Investment Decision Committee: the Investment Decision Committee is the highest management institution for all classes of securities investment business. It is responsible for making decisions for major investment matters, investment products and quarterly investment strategy in accordance with the asset allocation strategy adopted by the President’s Office. The Investment Decision Committee determines authorized investment level of the securities investment business and function departments, reviews and approves the securities investment assets allocation plan proposed by those departments according to the overall scale limit of securities investment determined by the Board. It also sets up new risk control indicators related to assets allocation of securities investment and single security investment product based on the Company’s investment business development needs, and makes decisions on other relevant major matters of securities investment. The meetings of Investment Decision Committee can only be held with the presence of two-

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thirds of the committee members, and the resolutions must be approved by at least half of all committee members; and

- The investment teams under the Securities Investment Department and the Fixed Income Department: All the investment teams under the Securities Investment Department (equity) and Fixed Income Department are under the leadership of Investment Decision Committee. The general managers of these departments lead the investment teams to make collective researches and decisions during the daily operations of securities investment, and conduct business by way of investment portfolio. The investment teams are mainly in charge of determining phased and specific investment strategies, phased assets allocation plans, investment portfolio plans, single and key securities investment plans, and matters of risk control and execution management.

We should follow a strict decision-making process when conducting securities investment:

- Research and planning: our investment team has established a securities pool, and we make investment portfolio decisions only among those securities when conducting our securities investment business;
- Decision-making and investment authorization: our investment team holds regular meetings every two weeks and ad hoc meetings when appropriate to determine the recent investment strategies;
- Transaction management and investment execution: traders are responsible for executing the trading orders made by investment managers and conducting the initial classification according to the purpose of holding when the financial assets are acquired;
- Business Auditing: our Finance Planning Management Department conducts clearings of the acquired financial assets in accordance with the orders of securities traders and files related transactions documents;
- Internal risk control: Risk and Compliance Officers review various risk control statements; and
- The entire process of compliance management: the Risk Management Department, the System Operation Department, the Compliance and Legal Management Department and Treasury Management Department and Finance Planning Management Department monitor and support the entire process of the investment.

Equity securities investment and trading

We adopt value investing strategy, and adhere to principles of selecting individual stocks prudently, making decisions collectively and diversifying investment, laying a foundation for risk control. We also ease volatility by hedging.

We manage the risk of equity securities investment through the following specific measures:

- We maintain equity securities pool for equity securities investment and trading business based on market conditions and research;
- We have set limit on concentration ratio of individual stocks and industry exposure, and authorize the investment managers to make investments within certain limits;

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- We monitor the condition of securities holdings on real-time basis, including trading positions, risk exposures and trading activities. We provide reports on routine and ad hoc basis for specific risk control events;
- We determine and control securities investment risks by means of, among other things, scenario analysis, stress and sensitivity analysis, conduct front control on investment trading by setting various risk control indicators, and limit or prohibit trading by setting corresponding thresholds in IT systems;
- We have set up an automatic dynamically adjusted stop-loss mechanism, such that the computers can set warning levels for reducing and closing positions on real time basis by setting algorithms, which will limit or restrict our trading automatically when material changes occur in market conditions and stock prices. Once the warning level is reached, our Risk and Compliance Officers and Risk Management Department would discuss risk remediation measures immediately; and
- We would hedge trading by using stock index futures or other derivatives to mitigate part of the risks.

Fixed income investment and trading

We have established a risk control team within the Fixed Income Department, strictly following the requirements on the maximum fixed income investment scale and the weighted average duration of total bond assets in securities investment and trading set by the Board, and ensure that our risk indicators meet the requirements set by regulators and the annual assets and liabilities allocation plan.

In addition, we also manage the credit risk of fixed income securities investment through the following measures:

- For investment scope of credit bonds, we mainly invest in bonds with credit rating of AA or above, and limit the investment proportion of bonds with external credit rating of AA- or below. As of December 31, 2015, more than 99.9% of the credit bonds we held have an external credit rating of AA or above;
- For credit bonds, we choose issuers with competitive advantages and sustainable revenue;
- We formulate different selection criteria for credit bonds and risk monitoring indicators according to different classification;
- We implement an internal rating mechanism on various fixed income products offered publicly, and limit investment on bonds according to the internal rating. We implement the credit risk indicators determined by the President’s Office to control risks in accordance with various indicators such as the holding limit of individual bonds, the magnitude of downgrade, the amount in default, etc.;
- We limit the investment in industries and enterprises with excess capacity and negative news, track and monitor the trends of macro economy and investment concentration ratio;
- We diversify fixed income investment portfolios, and continually track the changes on the operation, credit rating and solvency of the issuers; and
- We have established a contingency plan for credit bonds, which will be triggered promptly when a credit event occurs to bond issuers so as to minimize the loss caused by the credit event.

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Derivative trading

We conduct various derivatives transactions with certain restrictions on total volume, risk limits, risk exposures. The risk control indicators continue to meet regulatory requirements and requirements set by the Board. The main measures of risk management include:

- We have set up an investment risk assessment and control system tailored to our condition, and formulated risk control policies, measures and quantitative indicators to implement dynamic monitoring;
- In light of the characteristics of arbitrage trading, our transaction management focuses on indicators such as quota and exposure. We have set two types of trading limits and thresholds: one is prohibitive threshold in the trading system and the other is warning threshold in the risk control system; and
- We strictly perform credit review on counterparties, and adjust the margin requirements based on the condition of the market to manage credit risk. We closely monitor the counterparty’s credit situation and market changes to adjust our risk exposure.

NEEQ market-making

We conduct our NEEQ market-making business with certain restrictions on total scale, fund limit and approval procedures. The specific measures we adopted for risk management of the NEEQ market-making business include:

- We have specific provisions on investment scale and the approval process for utilizing excess funds, obtaining the market-making treasury stock, as well as delisting and market-making;
- We set concentration limits for individual listed companies. The operation of market-making business is carried out through segregated securities accounts and trading units. Segregated securities accounts shall be filed with Beijing Branch of CSDC and NEEQ Company;
- We have a well-established risk control system, risk control procedures and risk control information transferring procedures. We set parameters within the trading system beforehand, and take preventive measures for trades subject to potential risks; and
- We strictly establish Chinese Walls between related departments for investment process. Any reverse transaction shall be prohibited by an interceptor set in the trading software. Meanwhile, we enforce a strict separation between the trading and fund allocation process, and adopt a securities pool management.

Alternative investment

We engage in alternative investment business through our subsidiary, Orient Securities Innovation Investment. Orient Securities Innovation Investment has formulated relevant systems and has also established a multi-layer decision-making and authorization system to specify the investment authority of the board of directors, general manager, investment decision committee and investment managers.

The risk control of our alternative investment business is performed on project basis. For each project, the investment and research team will provide the feasibility analysis and propose investment

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strategies in advance, which will be reviewed by the project manager and the investment department director and then submitted to the general manager, the investment decision committee or the board of directors for approval according to different project scale as percentage of the Company’s net assets. In addition, Orient Securities Innovation Investment has clearly specified the risk indicators in the asset allocation plan, such as the asset scale, on-balance sheet and off-balance sheet financing scale, external guarantee scale, financial leverage and business leverage.

Investment Banking Business

The investment banking business conducted through Citi Orient

We mainly conduct investment banking business through our subsidiary Citi Orient. Citi Orient has developed a strict project risk evaluation system and project management system, established three business committees, namely the investment banking business decision-making committee, the project establishment committee and the internal auditing committee, and formulated corresponding operation procedures and business specifications according to different business processes and regulatory requirements for different investment banking businesses.

<i>Business selection</i>	Citi Orient has established a business quality control system. It has set procedures for business selection, preliminary due diligence requirements for project establishment, business selection procedures and compliance review procedures for intermediary engagement by promulgating the relevant mechanisms. In addition, it has established a practical and comprehensive issuer quality evaluation system.
<i>Due diligence and practice</i>	Citi Orient has specified the due diligence and archiving standards and improve the professional capability and ethics of the staff through training. Citi Orient has also put in place punitive measures to mitigate the operational risk.
<i>Quality inspection</i>	Citi Orient has established an independent quality control department. The project quality inspection will be conducted by professionals. The process monitoring and quality control will be conducted through on-site and off-site review.
<i>Internal review</i>	Citi Orient has specified the election criteria for the internal review committee members, the ratio of internal and external experts and compliance and risk control personnel, and the recruitment procedures in the relevant systems. The review opinions cover the project substantive review, the filing materials quality review, the sponsor performance review and the intermediary opinion review.
<i>Price inquiry based issuance</i>	The project underwriting risks can be effectively controlled through the due diligence of the project team, the valuation and price inquiry roadshow conducted by the capital market department and the project underwriting stress test.
<i>Continuous supervision</i>	Citi Orient has developed corresponding continuous supervision systems for different business types to specify the practice standards, work scope, procedures and file archiving responsibilities for continuous supervision.

Bond underwriting business conducted by our Company

We conduct comprehensive management throughout the bond underwriting process, including controls before, during and after each issuance:

- we pre-review and evaluate potential clients and their offering plan according to the relevant policies and market conditions;

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- we conduct comprehensive due diligence, and investigate the relevant information of the issuer and credit enhancement agency (if any). During the execution process, the project teams closely monitor the change of the issuer’s business operation and the external environment; and
- we will track, monitor and investigate the issuer and credit enhancement agency (if any) during the tenor of the bonds according to the relevant internal rules, in order to promptly obtain the accurate information about its use of proceeds and solvency, and continually monitor its performance of the obligations in information disclosure and debt servicing.

Headquarters and Other Businesses

Overseas businesses

Orient Finance Hong Kong is our wholly-owned subsidiary established in Hong Kong. Orient Finance Hong Kong has formulated various internal control systems, which cover the financial and fund management, HR management, IT management, business operation, and internal control of the holding company and its business subsidiaries.

Orient Finance Hong Kong has a legal and compliance department and a risk management department. The functions of legal and compliance department include formulating the internal compliance and risk management systems and processes, reviewing the contracts with external parties, conducting selective inspection on transaction records, reviewing erroneous trade records, verifying client positions, reviewing client account opening documents, monitoring employee transactions, identifying problems and reporting to the managers. The risk management department is mainly responsible for formulating risk management policies, implementing relevant procedures, conducting evaluation on the internal and external environments and the risks that the company is facing, proposing solutions to handle the risks and reporting to the management regularly. The subsidiaries of Orient Finance Hong Kong will submit the financial statements to the local regulatory authorities regularly.

Chinese Walls and Conflict of Interests

We pay special attention to the potential conflicts of interest and the need for information barrier, or commonly known as Chinese Walls. We have formulated and improved a series of internal rules and regulations according to the requirements of the relevant laws and regulations. Our major business departments and subsidiaries have also formulated the rules for Chinese Walls. We have also enhanced the practice standards, implemented confidentiality measures, compliance monitoring measures and access control measures. If the conflict of interests cannot be avoided by the basic measures for Chinese Walls, we will disclose the relevant conflict of interests. If such conflicts of interests cannot be effectively managed by means of disclosure, we will take restrictive measures on the relevant business activities to list the companies or securities involved in sensitive information on a restricted list and determine the scope of publication of the restricted list as per its need. When we apply restrictions to the business activities, we shall adhere to the principle of prioritizing clients’ interests and treating each client equally and fairly.

The Chinese Walls system we currently implement mainly includes the following:

- To specify the scope of sensitive information, the principle for preventing conflict of interests, the work divisions of different levels, the basic measures for Chinese Walls, the

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information isolation measures for different businesses, the cross-wall management, and other significant control contents;

- We have formulated specific information wall measures for the securities underwriting, NEEQ, research and advisory, securities investment, alternative investment, fixed income, asset management, margin financing and securities lending, stock option, securities brokerage and private equity investment businesses and clearly stipulated that the business cooperation between the departments with conflict of interests shall be subject to the cross-wall review and approval;
- We conduct focused monitoring on the key positions in the research and consultation, investment banking, securities investment and asset management businesses, taking such measures as forced information tracking system, strict computer hardware management, restriction on software installation, office telephone recording, centralized custody of mobile phones, email monitoring and instant message monitoring.
- We have established the Chinese Walls, created the “restricted list and observation list” through the system, realized the centralized management of sensitive information, and connected the Chinese Walls system to the business system to realize front-end control, automatic restriction, monitoring and follow-on management on the businesses with conflict of interests;
- We have established a “central control room” in the Compliance and Legal Management Department to organize and coordinate the implementation of the Chinese Walls. The central control room monitors and issues early warning on the business activities included in the observation list through the Chinese Walls system. Once any irregularity is detected, it will be investigated, reported and handled in a timely manner; and
- We ensure the strict implementation of the Chinese Walls system and the relevant measures by offering continuous compliance training, conducting compliance inspection and implementing an accountability system.

Through the practice and improvement over the Chinese Walls system in recent years, our Chinese Walls system and relevant measures have been proven to be effective, and meet the requirements of the regulatory authorities.

Segregation of Duties

To minimize the chance of collusion and improper transactions, the company assigns the responsibilities and functions of different business departments to different employees and teams. None of the employees shall simultaneously work in two or more departments with conflict of interests.

We have created a system with clear division of duties, mutual cooperation and mutual restriction between the departments by segregating the duties of different departments and positions and implementing the principle of separating positions subject to conflict of interests, thus ensuring the orderly operation of the Company and the achievement of the control targets. The Company has prepared such internal management manuals as Employee Manual and Compliance Manual to ensure that all the employees understand the internal organization structure, position responsibilities and business processes, recognize the allocation of rights and duties, and properly discharge their duties.

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Anti-money Laundering

We strictly comply with the anti-money laundering laws and regulations of the PRC and relevant rules of the People’s Bank of China and the CSRC, and include the anti-money laundering into the internal control system and daily business operation of the Company. We have established a three-level anti-money laundering organization structure. We conduct the client identification, re-identification and continuous identification according to the principle of “know your client”. We conduct corresponding due diligence and other risk control measures on different clients according to the money-laundering risk levels of the clients. Our Risk Management Department is responsible for the anti-money laundering data reporting. We have formulated detailed rules on the preliminary review, identification, confirmation, reporting process and timing for anti-money laundering work as well as judgment criteria for large transactions and suspicious transactions, and report anti-money laundering data to the People’s Bank of China Anti-money Laundering Monitoring and Analysis Centre in a timely manner.

We properly maintain client identity data and event records and implement confidentiality policy for anti-money laundering work according to the relevant requirements. We provide anti-money laundering knowledge to the clients by periodically issuing anti-money laundering brochures and setting up a special column for anti-money laundering promotion. We have conducted several seminar trainings and included the anti-money laundering policies into the Compliance Manual, new employee training, and employee performance evaluation of the company. We also provide active cooperation to the People’s Bank of China for onsite inspection and offsite supervision for anti-money laundering. Our Risk Management Department and Auditing Department have respectively formulated the auditing rules for anti-money laundering inspection and auditing, and perform regular inspection and auditing on the anti-money laundering practice of the Company and branches.

We have never participated in or intentionally assisted in any money laundering activity. For the risks concerning money laundering activity, please refer to “Risk Factors—risks relating to our business and industry—We may fail to detect money laundering and other illegal or improper activities in our business operations on a timely basis.”

Information Technology

The continual development of information technology and the Internet has changed the way that transaction and settlement of securities and other financial products are conducted as well as financial services are provided. They create great opportunities as well as challenges to our business development. We have established the System Research and Development Department and System Operations Department to take charge of the development, operation and maintenance of IT systems. We have constructed and operated multiple IT systems or platforms, covering the duties of various business and departments such as brokerage business, investment business, wealth management, risk control and auditing, and business operation.

To comprehensively manage the risks inherent in Internet platforms and Internet financial business, we adopt multiple IT security control measures, including firewall, data encryption and intrusion detection, client authentication, dynamic passwords and passwords linked to the mobile phone numbers, SSL authentication and IP and MAC address tracking, in order to ensure the clients’ and our information security.

We will continue to invest a huge amount of resources to improve and upgrade the IT systems each year, in order to provide safe and stable technical services and support the continuous growth of

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the businesses. As of December 31, 2015, we had 107 technicians in the IT research and development department for technology development and operation maintenance. In 2013, 2014 and 2015, our capital expenditures in information technology were RMB150.0 million, RMB160.0 million and RMB234.0 million, respectively. In August 2015, we officially passed the ISO 20000 certificates. The proven IT system we developed will continually improve the operational efficiency and the quality and efficiency of transaction management, client service and internal management.

INTELLECTUAL PROPERTY

Our Company was incorporated as a limited liability company under the name Orient Securities Limited Liability Company (東方證券有限責任公司) in the PRC in 1997. Our Company was converted into a joint stock limited liability company and we changed our registered name to “东方证券股份有限公司” in 2003, and have since been carrying on business under the name of “东方证券股份有限公司” in the PRC.

As of the Latest Practicable Date, we have registered three trademarks and five domain names with the competent authority in the PRC and four trademarks with Trade Marks Registrar and one domain name in Hong Kong. Further, we have also filed applications to the Trade Marks Registrar in Hong Kong for registration as owner of the trademarks of various combinations of “”, “東方證券” and “DFZQ”. Please see the section headed “Appendix VI—Statutory and General Information—Further Information about Our Business—Our Intellectual Property Rights” to this document for further information. We had not been subject to any material infringement of our intellectual properties rights or allegations of infringements by third parties during the Track Record Period and as of the Latest Practicable Date.

Our Company was registered in Hong Kong as a non-Hong Kong company under Section 16 of the Companies Ordinance under its Chinese name of “東方證券股份有限公司” on August 10, 2015. Our Company had intended to register its English name “Orient Securities Company Limited” as part of its non-Hong Kong company registration. However, we were informed by the Companies Registry that our English name “Orient Securities Company Limited” is too similar to another Hong Kong registered company named ORIENT SECURITIES LIMITED (東方匯財證券有限公司). As such, our Company proceeded to register as a non-Hong Kong company by only using its Chinese name “東方證券股份有限公司” on August 10, 2015.

Insofar as our Company is aware, ORIENT SECURITIES LIMITED (東方匯財證券有限公司) was incorporated in Hong Kong on June 11, 1999. It is a wholly-owned indirect subsidiary of ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED (東方匯財證券國際有限公司), which is listed on the Growth Enterprise Market Board of the Stock Exchange with stock code 8001.

Online searches conducted on the website of the Trade Marks Registry did not reveal that ORIENT SECURITIES LIMITED (東方匯財證券有限公司) or ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED (東方匯財證券國際有限公司) owns any relevant registered trademarks. As such, there can be no question of any infringement of any registered trademark of ORIENT SECURITIES LIMITED (東方匯財證券有限公司) or ORIENT SECURITIES INTERNATIONAL HOLDINGS LIMITED (東方匯財證券國際有限公司), but in order to minimize the possible risks arising from potential passing off claims, we have resolved to adopt the following measures:

- i. We have registered the business name “東方證券” (in Chinese) and “DFZQ” (in English) and will trade and carry on business in Hong Kong under such business names;

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- ii. We have applied for the registrations of the trademark of the combination of “” together with our Chinese business name “東方證券” and our English business name “DFZQ” in Hong Kong; and
- iii. We intend to put a prominent notice on our existing website upon [REDACTED] of our H Shares on the Hong Kong Stock Exchange that our Company is a PRC incorporated company and is referred to as and carrying on business in Hong Kong under the Chinese business name of “東方證券” and the English business name of “DFZQ”.

We believe that with the above steps taken by our Company, if a claim for passing off is brought, our Company would have a strong defense against such claim.

Please see the section headed “Risk Factors—We may be subject to potential passing off claim” of this document for further information.

INSURANCE

We purchase insurances for certain assets, such as vehicles. We do not purchase any business interruption insurance, which is consistent with the industry practices in the PRC.

We believe that we have purchased necessary and sufficient insurance for our operation and business in accordance with the industry practices. In addition, our policies contain such restrictive terms as standard deductibles, exclusions and benefit limits. Therefore, the insurance may not be able to cover all our losses, and we cannot guarantee that we will not incur or suffer any loss or claim beyond the benefit limit or coverage of the policy. All of our policies are underwritten by an insurance company with a good reputation, and we will review the policies each year.

EMPLOYEES

We believe that professional employees are important cornerstones for our long-term growth. As of December 31, 2015, we had 3,698 employees. The following table sets out the breakdown of the number of employees classified according to their business functions as of December 31, 2015:

	Number of employees	Percentage
Wealth management business	2,081	56.3%
Securities sales and trading business	151	4.1%
Investment banking business	260	7.0%
Asset management business	160	4.3%
Research	182	4.9%
Compliance and risk control	100	2.7%
Information technology	218	5.9%
Finance	210	5.7%
Administration	91	2.5%
Other	245	6.6%
Total	3,698	100.0%

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The following table sets out the breakdown of the number of employees classified by regions as of December 31, 2015:

	<u>Number of employees</u>	<u>Percentage</u>
Shanghai	2,205	59.6%
Other provinces of PRC	1,409	38.1%
Hong Kong	84	2.3%
Total	3,698	100.0%

As of December 31, 2015, approximately 70% employees had a bachelor or higher degree.

We sign employment contract with each employee according to relevant laws and regulations of the PRC, to protect their rights and interests. All employees are treated in fairness and in accordance with law. For instance, we provide basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident fund.

Our sustainable growth and development depend on the performance and loyalty of our employees. We adopt a market-oriented compensation structure, linking employees’ compensation to their performance. The performance evaluation system can provide basis for human resources decision-making, such as employee compensation adjustment, promotion and talent fostering. In addition, we provide supplementary compensation benefits to employees, such as paid annual leave, supplementary medical insurance and family care.

To improve employees’ professional skills, we have established a comprehensive and diversified training system to provide a variety of internal and external trainings for employees. We provide trainings on leadership, business skills, corporate culture, compliance and risk control and internationalization to employees through internal themed training, job rotation, external training, overseas exchange program and E-learning.

During the Track Record Period, we have not experienced any strike, protest or other serious labor dispute that may severely damage our business or public image. We have set up a labor union. We pay great attention to the rights and interests of our employees and maintain good relations with them.

PROPERTIES

Our headquarters are located in a property we rent at Block 2, No. 318 Zhongshan South Road, Shanghai, the PRC. As of December 31, 2015, we owned 31 properties and 4 parking spaces in the PRC with a total GFA of approximately 27,418 square metres. In addition, the properties we leased for the purpose of our principal business include 159 properties in the PRC with a total GFA of approximately 145,080 square metres and two properties in Hong Kong with a total GFA of approximately 18,266 square feet.

As of December 31, 2015, no single property accounted for 15% or above of our consolidated total assets. Therefore, this document is exempt from the requirements under Chapter 5 of Hong Kong Listing Rules and Paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance that the interests in the lands and buildings shall be included in the valuation report according to section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

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Self-owned Properties

As of December 31, 2015, among the 35 self-owned properties and parking spaces, we had obtained complete and effective building ownership certificates and land use rights certificates for 28 properties and parking spaces, with a total GFA of approximately 18,562 square metres (representing approximately 67.7% of the total GFA of all the self-owned properties). As confirmed by Grandall Law Firm (Shanghai), our PRC legal advisors, we have the legal ownership of these properties and thus have the right to own, use, transfer, lease, pledge or otherwise dispose of such properties.

As of December 31, 2015, we had only obtained the building ownership certificates but had not obtained land use rights certificates for seven properties with a total GFA of approximately 8,857 square metres (representing approximately 32.3% of the total GFA of all our self-owned properties), because (i) the relevant real estate developer or relevant regulatory department has not finished mapping on the land on which the relevant building is occupied, (ii) the developer has decided to apply for the land use rights certificate only after completion of the whole property project, or (iii) the transferor delayed in applying for the land use rights certificate. These properties are used by us as either offices or securities branches. According to our PRC legal advisors, the fact that we have the building ownership certificates but do not have the land use rights certificates for these properties will not affect our right to occupy, use and dispose of these properties.

We have not received any notice from any governmental authority or third party to stop using such properties with title defects or to pay the relevant penalties or compensation. Although we cannot determine the time when the competent authority will grant the relevant certificates to us, we have made commercially reasonable efforts to obtain all relevant certificates for the properties. Alternative properties are readily available. If we were required to relocate, our Directors do not expect the relocation costs to be material. Our Directors believe that the properties with title defects are in good condition and can be safely used by us.

For the above reasons, our Directors believe that the seven self-owned properties mentioned above are not significant to and will not have any material adverse impact on our business, operation or financial conditions.

Purchased Property

In October 2013, we entered into an agreement with Shanghai Binjiang Xiangrui Investment Construction Co., Ltd. (“Binjiang Xiangrui”) for the purchase of its No. 596 south land parcel project in Huangpu District, Shanghai. Under the agreement, Binjiang Xiangrui is responsible for construction of buildings with a total GFA of 16,751 square metres above ground and 11,000 square metres under ground and thereafter, transfer such buildings to us. We have agreed to pay for the consideration for the land use right and the relevant management fees, and bear the construction expenses, related taxes and project management fees.

Our PRC legal advisors have advised that the above agreement is valid and binding. As of December 31, 2015, we had paid approximately RMB1,056.6 million in aggregate as the consideration for the land use right, management fees, subsequent construction expenses, and project management fees.

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Leased Properties

As of December 31, 2015, the properties we leased for the purpose of our principal business include 159 properties in the PRC with a total GFA of approximately 145,080 square metres and two properties in Hong Kong with a total GFA of approximately 18,266 square feet.

For 133 leased properties in the PRC with a total GFA of approximately 128,915 square metres (representing approximately 88.9% of the total GFA of our leased properties), the lessors have obtained the relevant building ownership certificates. According to our PRC legal advisors, the lease agreements for such properties are valid and binding.

For 15 leased properties in the PRC with a total GFA of approximately 4,986 square metres (representing approximately 3.4% of the total GFA of our leased properties), although the lessors failed to provide the building ownership certificates, they have provided the land use rights certificates and construction project planning permits for these properties. Our PRC legal advisors have advised that according to the relevant provisions in article 2 of the Interpretation of the Supreme People’s Court on Certain Issues Concerning the Application of Laws in the Trial of Cases in Connection with House Lease Contract Disputes, if the lessor has obtained the construction project planning permit, the people’s court will treat the lease as valid. Therefore, these lease agreements are valid.

Most of the lease agreements of our 148 leased properties in the PRC mentioned above have not been registered with competent government authorities. As advised by our PRC legal advisors, pursuant to the Procedures for the Management of Commodity House Leases, lease agreements should be registered, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000. Our PRC legal advisors have further advised that the non-registration will not affect the validity of the lease agreements.

For 11 leased properties in the PRC, with a total GFA of approximately 11,179 square metres (representing approximately 7.7 % of the total GFA of our leased properties), the landlords have not provided the building ownership certificates or land use rights certificates and construction project planning permits. For eight buildings with a total GFA of approximately 8,988 square metres, the lessors have provided written undertaking or agreed in the relevant lease agreements that they would indemnify us for the losses incurred as a result of the defects in such leased properties. For the remaining three properties with a total GFA of approximately 2,191 square metres, the relevant lessors have provided ownership certificates or authorization documents issued by the relevant authorities proving the ownership of the properties. Our PRC legal advisors have advised that if the lessor does not possess the ownership of the above properties, the lessor is not entitled to lease the property. Under such circumstances, if any third party challenges the ownership of the building or the lessor’s right to lease the property, we may not be able to continue to lease the property but we are entitled to claim damages from the lessors pursuant to the lessors’ undertaking or the terms of the relevant lease agreements.

We mainly use the leased properties as our branches or offices. As of the Latest Practicable Date, we are not aware of any need to relocate from our leased properties due to the lack of certificate or permit mentioned above. In any event, given that alternative properties are readily available, if we were required to relocate, we do not expect the relocation costs to be material.

For the above reasons, our Directors believe that the defects in our leased properties will not have material adverse effect on our business, operation or financial conditions.

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LAWS AND REGULATIONS

Licensing Requirements

We conduct our business mainly in the PRC and are, therefore, subject to the regulatory requirements of the PRC. Our Directors and PRC legal advisors, Grandall Law Firm (Shanghai), confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements and guidelines in all material respects and obtained all the important consents and licences necessary for our operations in accordance with the PRC laws and regulations. We renew all business licences according to relevant law and regulations from time to time. To the knowledge of our Directors after due inquiry, our Directors confirmed that as of the Latest Practicable Date, all of our employees and brokers had obtained the relevant licences as required for their business activities. Since our A Share offering in March 2015 and up to the Latest Practicable Date, neither our Company nor any of our Directors have been subject to auditing or administrative penalty by the CSRC, or been criticized or publicly reprimanded by the Shanghai Stock Exchange for violations of any listing rules or other relevant applicable rules.

In accordance with the regulatory requirements of the laws in Hong Kong, our subsidiaries established in Hong Kong, including Orient Securities (Hong Kong) Limited, Orient Futures (Hong Kong) Limited, Orient Asset Management (Hong Kong) Limited, Orient Capital (Hong Kong) Limited and Orient Credit Finance (Hong Kong) Limited, must obtain the necessary licences or permits for operation according to the relevant laws before conducting relevant businesses in Hong Kong. In accordance with the Securities and Futures Ordinance, Orient Securities (Hong Kong) Limited holds Type 1 (Dealing in Securities) licence and Type 4 (Advising on Securities) licence issued by the SFC, and the exchange participant certificate issued by a recognized controller (Hong Kong Stock Exchange) as defined in the SFO. Orient Futures (Hong Kong) Limited holds Type 2 (Dealing in Futures Contracts) licence issued by the SFC and the exchange participant certificate issued by the Hong Kong Stock Exchange. Orient Asset Management (Hong Kong) Limited holds Type 9 (Asset Management) licence issued by the SFC. Orient Capital (Hong Kong) Limited holds Type 6 (Advising on Corporate Finance) licence issued by the SFC. In accordance with Money Lenders Ordinance, Chapter 163 of the Laws of Hong Kong, Orient Credit Finance (Hong Kong) Limited holds a money lenders licence.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant Hong Kong regulatory requirements and guidelines in all material respects and obtained the permits and licences necessary for our operations in accordance with the laws and regulations of Hong Kong.

Legal Proceedings

We may become a party to legal proceedings arising in the ordinary course of our business. Our Directors and our PRC legal advisors, Grandall Law Firm (Shanghai) have confirmed that, up to the Latest Practicable Date, there was no legal proceeding pending or threatened against us or our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

Regulatory Non-compliances

We are subject to various regulatory requirements and guidelines promulgated by the regulatory bodies in the PRC and Hong Kong, including but not limited to the CSRC, SFC, Shanghai Stock

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Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange, NEEQ Company and their respective local authorities and offices, self-regulatory organizations in our industry, including but not limited to the Asset Management Association of China and the SAC. We or our employees may be involved in regulatory non-compliance incidents from time to time, and such regulatory non-compliance incidents can be divided into the following two categories based on the nature of the incidents: (i) non-compliance incidents that lead to administrative penalties; and (ii) non-compliance incidents that lead to regulatory measures and the deduction of regulatory points.

Non-compliance Incidents That Lead to Administrative Penalties

During the Track Record Period and up to the Latest Practicable Date, we did not receive any administrative penalty from any regulatory authority.

Non-compliance Incidents That Led or May Lead to the Deduction of Regulatory Points

The following table sets forth the non-compliance incidents that led to regulatory measures or the deduction of regulatory points during the Track Record Period and up to the Latest Practicable Date.

Regulatory non-compliance incident	Brief explanation and our primary remedial measures
Orient Securities Asset Management	
On September 9, 2014, the Asset Management Association of China issued a letter to Orient Securities Asset Management, stating that since certain clients of two collective asset management schemes sponsored by Orient Securities Asset Management did not sign the risk disclosure statements, the Asset Management Association of China decided to give an oral warning to Orient Securities Capital Investment in accordance with the relevant self-discipline rules, and for the one month from September 9, 2014, Orient Securities Asset Management shall communicate with the Asset Management Association of China before setting up any asset management scheme. After such period, Orient Securities Asset Management could submit a special rectification report to the CSRC and the Asset Management Association of China.	These incidents resulted from our failure to fully follow the required contract signing procedures for asset management business. Our rectification measures after these incidents included: arranging signing of the risk disclosure statements not signed by certain clients for our existing products, formulating the management procedures for paper contracts, completing the contract numbering work, and further enhancing management on contract files to preclude the re-occurrence of such incidents. After our rectification, the CSRC and the Asset Management Association of China did not have any further comments.
Orient Securities Futures	
On November 12, 2014, the CSRC Shanghai Bureau issued a warning letter to Orient Securities Futures, stating that an employee of Orient Securities Futures had used office computers without authorization to give trading instructions on behalf of clients, which reflected that Orient Securities Futures failed to effectively implement the internal control measures and working procedures such as management of employees and the information technology equipment, and that Orient Securities Futures were exposed to safety hazards. This behavior breached the requirements of the Measures for the Administration of	This incident resulted from our failure to effectively implement internal control measures and working procedures such as those on the management of staff and information technology equipment. After this incident, since the employee violated relevant rules of the company to carry out futures trading upon instructions from the clients, which had certain negative impact, we terminated the employment contract with this employee according to relevant provisions of the employment contract and the staff manual.

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Regulatory non-compliance incident

Futures Companies applicable at that time. The CSRC Shanghai Bureau required Orient Securities Futures to further enhance compliance management on employees, adopt effective measures to implement its information technology management system, and submit a rectification report in writing within 30 business days.

Brief explanation and our primary remedial measures

In order to avoid re-occurrence of such incident, we have: (i) enhanced the self-discipline education on the conduct of practicing professionals, especially education on the conduct of practicing professionals in our Asset Management Department, and required our staff to sign compliance commitment statement; (ii) refined internal control measures for all business lines and departments, the effectiveness of each measure, and optimized regulatory measures for compliance and risk management, in order to ensure compliance and the healthy and stable development of each business segment; (iii) installed Internet behavior management system for all branches, dedicated specific staff to manage our professionals' conduct over the Internet; prohibited any trading in the working area, fully prohibited any unauthorized trading in the business premises that have on-site clients; (iv) arranged for the Information Technology Department and Compliance Auditing Department in our headquarters to check the MAC addresses on the computers regularly (monthly), to confirm whether any employee has carried out any trading and whether there is contact information of staff and brokers contained in the account opening information of the clients, and prepared verification reports on a routine basis to impose punishment on relevant staff who breaches relevant requirements and relevant departments as well as staff negligent in the performance of management duties in accordance with the regulatory requirements, industry self-discipline requirements and company rules.

We have submitted a rectification report to the CSRC Shanghai Bureau. As of the Latest Practicable Date, we have not received any opposing or follow-up comments from relevant regulatory authority on our rectification measures.

On April 13, 2015, the CSRC Shanghai Bureau made a decision to carry out regulatory conversation measures against Orient Securities Futures. After an investigation, on March 10, 2015, the collective trading system of Orient Securities Futures (CTP Chairman) broke down due to human failure, and caused partial interruptions of the trading system due to system reboot, which affected trading for over 5 minutes in aggregate, and damaged the legitimate interests of investors. This incident constituted a major information security incident under Section 12, Article 4 of the Measures on the Reporting and Investigation of Information Security Incidents in Relation to Securities and Futures. The CSRC required the relevant responsible persons of Orient Securities Futures to attend the regulatory conversation in the CSRC Shanghai Bureau on April 16, 2015.

The cause of this information security incident was a mistake in the setting of the contract information of our staff which resulted in the delayed restoration of the broken-down trading system.

After the trading system broke down, we initiated our emergency measures in a timely manner, fixed the issue completely and handled client relations properly, such incident did not cause any negative social effect.

After receiving the decision to implement regulatory measures, the relevant responsible persons of Orient Securities Asset Management went to the CSRC Shanghai Bureau to attend the regulatory conversation on the required date.

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Regulatory non-compliance incident

Brief explanation and our primary remedial measures

Our rectification measures after this incident included: (i) enhanced business trainings and responsibility education on the staff of key positions and the technical personnel on duty to avoid any operational risks; (ii) rectified the setting and reviewing procedures for key business parameters; (iii) refined the business process of the company, reducing the operation time for settlement and system initialization to save more time for handling emergencies; (iv) started to carry out system improvement to enhance the fault tolerance mechanism of the system.

As of the Latest Practicable Date, we have not received any follow-up comments from the relevant regulatory authority.

Citi Orient

On February 11, 2015, NEEQ Company implemented corresponding regulatory measures in respect of the information disclosure non-compliance incident of Beijing Zhong-ke Clamber Electronic Technology Co., Ltd. (“**Clamber**”) and its relevant staff and intermediaries. Since Citi Orient, as the lead securities firm of Clamber failed to supervise Clamber to perform its information disclosure obligations in a faithful and trustworthy manner in accordance with relevant requirements and to optimize its corporate governance, NEEQ Company implemented the regulatory measures to require Citi Orient to attend a regulatory conversation. This incident also resulted in a deduction of points during the classification evaluation of securities firms in 2015.

This incident resulted from our failure to fulfill our duty to perform the on-going supervisory obligations for the NEEQ projects.

Our rectification measures after this incident included: circulating a notice of criticism on the relevant responsible staff, organizing the relevant departments and staff to identify and analyze the causes of this incident, and refining and reviewing the whole business process to identify the weak links and formulate corresponding solutions. In order to consolidate the process and implement the rectification measures, the company formulated and distributed the On-going Supervising and Information Disclosure Systems of the Company for the Public Transfer of the Shares Listed on NEEQ and the Memorandum on the Review of the Information Disclosure Documents of the Companies Subsequent to Their Listing on NEEQ.

In order to avoid the re-occurrence of such incidents, we also adopted the following measures: the Quality Control Department of the company organized the staff in relevant departments to correct errors promptly by drawing inferences from one instance, and optimized the relevant process in the OA system to prevent the re-occurrence of similar problems by participating in the trainings on such systems as the On-going Supervising and Information Disclosure Systems of the Company for the Public Transfer of the Shares Listed on NEEQ and the Memorandum on the Review of the Information Disclosure Documents of the Companies Subsequent to Their Listing on NEEQ.

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Regulatory non-compliance incident

Brief explanation and our primary remedial measures

As of the Latest Practicable Date, we have not received any follow-up comments from the relevant regulatory authority.

Employee Non-compliance Incidents

During the Track Record Period and as of the Latest Practicable Date, there were two non-compliance incidents involving our employees which had been subject to regulatory measures or prosecution or conviction, detailed as below:

Employee non-compliance incidents

Brief description and our remedial measures

On September 19, 2014, GONG Yueyue, former head of Research Department of Orient Finance Hong Kong, was charged by Independent Commission Against Corruption (ICAC) for receiving advantages as an agent. GONG Yueyue accepted HK\$100,000 to intentionally increase the target share price of China Household Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code: 0692) to HK\$2.06 in the research report.

Upon becoming aware of GONG Yueyue being subject to an investigation by ICAC, Orient Finance Hong Kong actively cooperated with the investigation of ICAC. Orient Finance Hong Kong has not been subject to any investigation or prosecution by any authorities for this incident.

On February 25, 2015, GONG Yueyue was convicted of receiving advantages as an agent in contravention of section 9(1) (a) of Prevention of Bribery Ordinance by Eastern District Law Court, and was sentenced to 1 year in prison.

After Orient Finance Hong Kong was informed that GONG Yueyue was officially charged by ICAC before the court, it took the following remedial measures: (i) Orient Finance Hong Kong officially terminated employment with GONG Yueyue on November 16, 2014; (ii) to ensure the normal operation of the Research Department, management functions of the Research Department were transferred to the management and other officers; (iii) revising the internal policy, Code of Conduct on Receiving Advantages and Reporting of Conflicts of Interest, in May 2014, stipulating that all the employees shall report to the company and obtain approval for the relevant issues.

On November 16, 2015, the SFC banned GONG Yueyue from re-entering the financial industry for 15 years.

On October 30, 2015, as stated in the CSRC’s press release administrative penalties were imposed in several illegal cases, one of which involved LI, the former manager of Changsha securities branch of Orient Securities. According to the press release, LI had frequent contact with the senior managers of a listed company’s shareholder who had the insider information when the listed company was planning for an important investment project. He used another person’s account to trade “Boyun New Materials” and made a profit of RMB2.89 million. His transaction activity was highly consistent with the insider information. Therefore, he was suspected of insider trading. The CSRC confiscated all his illegal earnings and imposed a penalty equal to 3 times of the illegal earnings and banned him from accessing the securities market for life.

When we became aware of the issue, we commenced the compliance accountability procedure immediately. We removed LI from the position of securities branch manager, demoted him to an ordinary employee, deducted part of his performance bonus and ordered him to continue to cooperate with the subsequent investigations by the regulatory authority.

According to the investigation findings and the handling of illegal activity of the regulatory authority, the illegal activity was found to be conducted by LI in his personal capacity. The Company was not subject to any administrative penalty or regulatory measures in relation to this incident.

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Employee non-compliance incidents

According to the oral explanation provided by LI, the CSRC delivered the notice of administrative penalty to him because he was suspected of insider trading. LI disagreed with the facts stated by the CSRC. He has submitted defence materials and this case is currently under investigation by the CSRC.

Brief description and our remedial measures

After the occurrence of this incident, the Company took the following measures to further enhance control on the practice of employees: (i) providing compliance education to all securities branch employees; (ii) enhancing technical monitoring on the employee practice; (iii) enhancing inspection on employee practice by ordering the Risk and Compliance Officer of the branches to inspect employee practice each month, in order to discover, report and deal with any issue in a timely manner.

In addition, as of the Latest Practicable Date, to the knowledge of our Directors, a former member of our senior management, an employee and a former employee of the Company were under investigation by the CSRC and the public security authority for their suspected use of non-public information to trade in securities, but the regulatory authorities did not officially inform us the status of such investigations. As far as we are aware, these incidents mainly concern the conduct of these individuals, and we were not investigated by these regulatory authorities or any other authorities. After these incidents, the Company conducted internal investigations, and enhanced compliance education and monitoring in order to further improve the overall management of our employees.

As confirmed by our Directors and Grandall Law Firm (Shanghai), our PRC legal advisors, except for those disclosed above, neither our employees nor we have been subject to any administrative penalties, regulatory measures or prosecution and conviction during the Track Record Period and as of the Latest Practicable Date.

Our Directors and Grandall Law Firm (Shanghai), our PRC legal advisors, believe that the above-mentioned non-compliance incidents will not cause any material adverse effect on our business, financial conditions or results of operations.

Given that (i) we obtained the regulatory ratings of AA, A, AA and AA respectively from the CSRC in 2012, 2013, 2014 and 2015; (ii) as of the Latest Practicable Date, the regulatory authorities in the PRC had neither raised any objection to our rectification report or the remedial measures we adopted for the non-compliance incidents disclosed in this document, nor taken any subsequent actions; (iii) we have taken monitoring measures to prevent the reoccurrence of such events; (iv) our internal control consultant confirmed that we had taken remedial measures to strengthen internal control; and (v) as of the Latest Practicable Date, none of our Directors had been subject to the warning, penalty, sanction or reprimand by the regulatory authorities in PRC because of the non-compliance incidents disclosed in this document, the Directors believe that (a) the internal control measures of our Company are sufficient and effective in all material aspects; and (b) these incidents do not affect the qualifications of the Directors to serve as the Directors of our Company according to Rules 3.08 and 3.09 of the Listing Rules. After making reasonable inquiries regarding the non-compliance incidents and the remedial measures, there is nothing that causes the Joint Sponsors to disagree with our view.

We appointed an independent internal control consultant to perform an internal control review and provided recommendations for our Group between October 2014 and September 2015 based on agreed scope with the Company and the Joint Sponsors. The internal control consultant performed a follow-up review in January 2016 and all the recommendations have been implemented.

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Regulatory Inspection

The CSRC and other regulatory authorities will conduct inspection, review and inquiry on our compliance with laws, regulations and guidelines. Although the inspection, review and inquiry by the regulatory authorities did not subject us to any administrative penalties or regulatory measures, such actions did reveal that there existed defects, to some extent, in our business operation, risk management and internal control. We have taken remedial measures and improved our risk management and internal control system according to the suggestions of the regulatory authorities. The regulatory inspections are outlined below:

Regulatory Inspection by the CSRC Shanghai Bureau in April 2013

From April 1 to April 3, 2013, the CSRC Shanghai Bureau conducted an on-site inspection on our compliance management, risk management mechanism construction and operations. The main issues included: (1) the counter system failed to reveal the extremely risky subscription of the clients or record the clients’ options; (2) there existed several cases that the business exceeded its size limit set by the Board of Directors in the investment fixed income business and the stock index futures business; (3) the Company did not have the qualifications for securities underwriting and sponsorship when engaging in the underwriting of inter-bank market policy financial bonds; (4) the investment in designated asset management plans by the private equity investment subsidiary did not comply with the relevant laws and regulations.

The remedial measures we adopted for the above issues included: (1) upgrading relevant system to promptly give alerts about extremely risky subscription and the recording of the operations selected by the clients on the counter system; (2) further enhancing the internal management and strengthening the efforts in the report and disposal in the risk management process; (3) the Company signed a business division agreement with Citi Orient, the subsidiary engaged in sponsorship and underwriting businesses, according to which, the Company will engage in the securities underwriting (national bonds, policy bank financial bonds, short-term financing bill and mid-term notes only) and Citi Orient will engage in the sponsorship and underwriting businesses except for the above-mentioned securities underwriting during the agreed term. This business change has been approved by the securities regulatory authority; (4) enhancing the investment management of the private equity investment subsidiary.

We submitted the rectification report to the CSRC Shanghai Bureau in May 2013. As of the Latest Practicable Date, we had not received any objection to our rectification report from the regulatory authority.

Regulatory Inspection by the CSRC Shanghai Bureau in July 2014

At the end of July 2014, the CSRC Shanghai Bureau conducted an on-site inspection on the establishment of the comprehensive risk management and liquidity risk management system of our Company, and identified the following main issues: (1) certain risk control measures set out in the risk management table of our Company hadn’t been implemented; (2) risk control indicators for asset and liability allocation of Securities Investment Department and Financial Derivatives Department exceeded the limit set by the Board of Directors and President’s Office; (3) the liquidity regulatory indicator failed to meet the regulatory requirements in certain months and our Company failed to establish a standardized emergency disposal mechanism and a daily supervision and tracking mechanism to manage liquidity risks; (4) failure to implement unified monitoring and collection of

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single risks involving different departments at the company level; (5) risk monitoring of our subsidiaries needs to be enhanced; (6) there is still room for improvement in the business model, procedures and liquidity management of our “Dongfanghui (東方匯)” business (namely, a kind of service in which our Company gives order to the fund account of our clients to purchase and redeem “money market fund C of China Universal(匯添富貨幣市場基金C)” automatically according to the agreement between the client and us).

The rectification measures we have adopted to rectify the above-mentioned issues include: (1) to reiterate relevant institutional requirements to the person in charge of the relevant project and ask the risk control manager to carry out casual inspection and supervision on the implementation of risk control measures; (2) to instruct the office of securities investment business to criticize and educate responsible persons and to reiterate relevant policies and institutional requirements, and clarify such specifications as the timing, reporting method for risk warning and the feedback time for rectification by the business department when the risk control indicator of such business department exceeds the limit; (3) to formulate standardized contingency plans and pressure testing measures to manage liquidity risk and set clear, relevant quantitative criteria; to manage the liquidity demands at the funds centre in a unified manner, and include medium- and long-term debt financing instruments into the daily liquidity management system; (4) to implement unified monitoring and compiled analysis of market risk, credit risk and liquidity risk at the Company level; (5) to initiate the development and construction of “platform for risk management and reporting of operating information of subsidiaries (子公司風險管理及經營資訊報送平臺)”; (6) to systematize risk management and the application of pressure testing indicators according to the comprehensive risk management requirements; (7) to optimize the business model and procedures of “Dongfanghui” business and strengthen risk management of “Dongfanghui” business.

In October 2014, we submitted our rectification report to the CSRC Shanghai Bureau. As of the Latest Practicable Date, we had not received any objection to our rectification report from the regulatory authority.

Regulatory Inspection on Orient Securities Asset Management by Inspecting Team of the CSRC in August 2014

In August 2014, the inspecting team of the CSRC conducted an on-site inspection of the asset management business of Orient Securities Asset Management, identified the following main issues: (1) failure to make strict examination of the investment objects of the asset management scheme; (2) conducted SAM via TAM contracts; (3) insufficient risk disclosure and contracts management; (4) lack of robust seals management system; (5) inaccurate information disclosure and failure to make an announcement about the secondary tranche of investment in ALI No. 3 SAM scheme (阿裡3號專項計劃) by DFH Ming Rui No. 1 (東方紅明睿1號); (6) failure to file the TAM contracts on time; (7) warehousing of stocks needed to be improved.

The rectification measures we have adopted to rectify the above-mentioned issues include: (1) to examine and assess the investment objects of the asset management scheme according to the regulatory requirements to prevent avoiding regulatory requirements by any means in line with the principle of “substance over form”; (2) to further enhance our product design and innovation ability; (3) to arrange supplemental signing of risk disclosure for unexpired products and streamline the management processes for paper contracts and strengthen management of contracts and files; (4) to streamline the management processes for seals and clarify and implement the accountability

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mechanism for those in breach of the seals management system and implement accountability measures; (5) to make supplementary announcements for any omitted event immediately and enhance management of disclosure of product information; (6) to clarify filing processes and responsibilities for TAM contracts; (7) to standardize the management processes for stock warehousing.

In September 2014, we submitted our rectification report to the CSRC Shanghai Bureau of CSRC. As of the Latest Practicable Date, we had not received any objection to our rectification report from the regulatory authority.

Regulatory Inspection by Institutional Department of the CSRC in December 2014

From December 22, 2014 to December 26, 2014, the institutional department of the CSRC conducted an on-site inspection on the operating of such financing businesses as margin financing and securities lending, collateralized stock repurchase, repurchase agreement transactions, OTC return swaps trading with financing function and the preparation of stock option business during the period from January 1, 2014 to November 30, 2014, and identified the following main issues: (1) there was an error in the total size of margin financing and securities lending from April to November in 2014 determined by the Board of Directors at the end of the period as included in the regulatory statement of margin financing and securities lending business filed with the relevant regulatory authority; (2) we had opened margin accounts for clients who have opened accounts with our Company for more than half a year but had a trading history of less than six months; (3) failure of our risk monitoring and management platform to monitor and limit the aggregate financing amounts by a single client through margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions from our Company; (4) failure of our OTC return swaps business with financing function to make assessment of the appropriateness of our counterparties and to make comprehensive investigation into the trading experience of our counterparties and their financial assets condition, and failed to assess the risk tolerance of our clients.

The rectification measures we have adopted to rectify the above-mentioned issues include: (1) setting specific limits for each business line for the avoidance of confusion; (2) organizing all business departments to take training courses and reiterating examination of a client’s trading history in determining whether he/she is qualified to open margin account and update the system; and prohibiting opening credit accounts for clients who have a trading history of less than half a year; (3) conducting research on the relevant restrictions standards and carrying out risk monitoring and limitation for the scope of credit business; (4) conducting in-depth and comprehensive investigation into the qualification of our counterparties in return swaps business.

There is no need to submit a written rectification report in respect of the above-mentioned inspection.

Our Directors confirm that, apart from the matters disclosed in the section headed “—Laws and Regulation—Regulatory Non-compliances”, there are no other significant regulatory and inspection issues or regulatory non-compliance during the Track Record Period and as of the Latest Practicable Date.

Regulatory Non-compliance Relating to Our Associate

According to the information publicly disclosed by the CSRC on March 28, 2014, SU Jing, a former employee of China Universal, utilized the non-public information acquired by taking

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advantage of his position during his term of office to buy stocks of RMB700 million in total. On October 21, 2014, SU Jing was sentenced by Shanghai No.1 Intermediate People’s Court for a fixed-term imprisonment of two years and six months with a penalty of RMB37 million and an order to return his illegal income.

The aforementioned illegal act of SU Jing is carried out by him personally, and SU Jing had terminated the employment contract with China Universal on November 28, 2013. Such incident has caused no material adverse effect on the business, financial condition or results of operations of China Universal. As confirmed by the accountant firm engaged by China Universal in the assessment of the internal control performed in 2015, China Universal had strictly complied with relevant regulations and the internal policy of the Company in respect of the management of investment personnel and did not identify any issues.

In addition, the CSRC Shanghai Bureau inspected the internal control of China Universal in July 2014, and identified certain defects in the risk control measures of China Universal for the information system during its inspection. As such, in February 2015, the CSRC Shanghai Bureau imposed regulatory measures on China Universal to order China Universal to rectify such defects within a period of three months, during which the applications of China Universal for the registration of mutual fund products would be rejected. In this regard, China Universal adopted various rectification measures including modifying the telephone system and updating computer monitoring software, and passed the rectification acceptance check of the CSRC Shanghai Bureau in April 2015.

RELATIONSHIP WITH SHENERGY GROUP

Our Company is a joint-stock limited company listed on the Shanghai Stock Exchange. As of the Latest Practicable Date, Shenergy Group held approximately 30.08% of the issued Shares. Immediately following the completion of the [REDACTED], Shenergy Group will hold approximately [REDACTED]% of the issued Shares (assuming the [REDACTED] is not exercised).

Shenergy Group is wholly owned by Shanghai SASAC. It primarily engages in investment, development and management in power and energy-based industries, investment in natural gas resources and urban gas network, investment management in real estate and advanced technology industries, industrial investment, as well as asset management and domestic trading (excluding specially regulated ones).

INDEPENDENCE FROM SHENERGY GROUP

The Directors consider that our Group is capable of carrying on our business independently of Shenergy Group and its associates for the reasons set out below.

Management Independence

Our Board consists of two executive Directors, eight non-executive Directors and six independent non-executive Directors. Our senior management team comprises of six members. Our Supervisory Committee comprises of seven members. The table below sets out the positions held by our Directors, Supervisors and senior management team in Shenergy Group and its subsidiaries.

<u>Director/Supervisor/Senior Management</u>	<u>Position in the Company</u>	<u>Position in Shenergy Group and/or its subsidiaries</u>
WU Jianxiong (吳建雄)	Vice chairman, non-executive Director	Deputy party secretary and general manager of Shenergy Group Chairman of Shenergy Co., Ltd.
ZHANG Qian (張芊)	Non-executive Director	Deputy general manager of Shenergy Group General manager of Shenergy Group Finance Limited
WU Junhao (吳俊豪)	Non-executive Director	Manager of finance management department of Shenergy Group Director of Shanghai ICY New Energy Venture Capital Investment Co., Ltd. Supervisor of Shanghai ICY Capital Co., Ltd.
SONG Xuefeng (宋雪楓)	Chairman of the Supervisory Committee	Deputy general manager of Shenergy Group Chairman of the supervisory committee of Shenergy Co., Ltd. Chairman of Shanghai ICY Capital Co., Ltd. Chairman of Shanghai ICY New Energy Venture Capital Investment Co., Ltd. Executive director of Shanghai ICY Capital Management Ltd. Executive director of Chengdu ICY Capital Management Ltd.

RELATIONSHIP WITH SHENERGY GROUP

Mr. Wu Jianxiong is our vice chairman and non-executive Director. Mr. Wu has served as deputy party secretary and general manager of Shenergy Group since March 2008 and April 2008, respectively; and chairman of Shenergy Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code: 600642) since May 2011. Mr. Wu will continue to serve in such positions in Shenergy Group and Shenergy Co., Ltd. immediately following the [REDACTED]. Mr. Wu, as a non-executive Director, will not be involved in our day-to-day business operations after the [REDACTED]. Our Directors believe that such arrangement will not affect the discharge of his duties and responsibilities to us, the Shenergy Group and Shenergy Co., Ltd.

Mr. Zhang Qian is our non-executive Director. Mr. Zhang has served as deputy general manager of Shenergy Group since September 2015, and general manager of Shenergy Group Finance Limited since October 2009. Mr. Zhang will continue to serve in such positions in Shenergy Group and Shenergy Group Finance Limited immediately following the [REDACTED]. Mr. Zhang, as a non-executive Director, will not be involved in our day-to-day business operations after the [REDACTED]. Our Directors believe that such arrangement will not affect the discharge of his duties and responsibilities to us, Shenergy Group and Shenergy Group Finance Limited.

Mr. Wu Junhao is our non-executive Director. Mr. Wu has served as the manager of the finance management department of Shenergy Group since April 2011, a director of Shanghai ICY New Energy Venture Capital Co., Ltd. since October 2010, and a supervisor of Shanghai ICY Capital Co., Ltd. since March 2010. Mr. Wu will continue to serve in such positions in Shenergy Group and its subsidiaries immediately following the [REDACTED]. Mr. Wu, as a non-executive Director, will not be involved in our day-to-day business operations after the [REDACTED]. Our Directors believe that such arrangement will not affect the discharge of his duties and responsibilities to us and the Shenergy Group.

Mr. Song Xuefeng is the chairman of our Supervisory Committee. Mr. Song has served as the deputy general manager of Shenergy Group since August 2014; chairman of the supervisory committee of Shenergy Co., Ltd. since May 2011; chairman of Shanghai ICY Capital Co., Ltd., Shanghai ICY New Energy Venture Capital Investment Co., Ltd. since July 2013, and chairman of Shanghai ICY Capital Management Ltd. since December 2012; and executive director of Chengdu ICY Capital Management Ltd since December 2012. Mr. Song will continue to serve in such positions in Shenergy Group and its subsidiaries immediately following the [REDACTED]. It is expected that Mr. Song will not be involved in our day-to-day business operations as a Supervisor, and our Directors believe that such arrangement will not affect the discharge of his duties and responsibilities to us, the Shenergy Group and its subsidiaries.

Notwithstanding the overlapping roles of our Directors described above, all of our executive Directors, five out of the eight non-executive Directors, namely Mr. Chen Bin, Mr. Li Xiang, Mr. Xu Chao, Mr. Chen Bichang and Mr. Zhou Yao, all our independent non-executive Directors, six out of seven Supervisors, namely Mr. Li Bin, Mr. Liu Wenbin, Mr. Yin Keding, Mr. Wu Zhengkui, Mr. Zhou Wenwu and Mr. Yaoyuan, and other members of our senior management, namely Mr. Yang Yucheng, Mr. Shu Hong, Mr. Zhang Jianhui, Mr. Du Weihua and Mr. Yangbin, do not hold any roles in Shenergy Group, its subsidiaries or associates. On this basis, there are sufficient non-overlapping Directors, Supervisors and members of senior management who are independent from Shenergy Group and have relevant experience to ensure the proper functioning of our Board, Supervisory Committee and our senior management.

RELATIONSHIP WITH SHENERGY GROUP

Our Directors are of the view that our Company will function independently from Shenergy Group for the following reasons:

- (i) 13 out of the 16 Directors are independent of Shenergy Group and decisions of the Board require the approval of a majority vote from the Board. Therefore, the Board is not under significant influence of Shenergy Group and can manage the operations of our Company independently from Shenergy Group;
- (ii) according to the Articles of Association, with respect to any matters of conflict or potential conflict of interest which involve a transaction between our Company and another company or entity to which a Director holds office, such Director shall abstain from voting and shall be excluded from the quorum;
- (iii) we have appointed six independent non-executive Directors, comprising more than one-third of the total members of our Board, to balance the number of potentially interested and independent Directors with a view to promote the interests of our Company and the Shareholders as a whole; and
- (iv) each of our Directors is aware of his fiduciary duties and responsibilities under the Hong Kong Listing Rules as a director, which require that he acts in the best interest of our Company.

Based on the above, we believe that our Board is able to manage the Company independently from Shenergy Group.

Operational Independence

We have established our own organizational structure, and each department is assigned to specific areas of responsibilities. We have independent access to suppliers and clients and an independent management team to handle our daily operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently.

Our Directors are of the view that there is no operational dependence by us on Shenergy Group and our Group is able to operate independently from Shenergy Group after the [REDACTED].

Financial Independence

Our Group has an independent financial system. We make financial decisions according to our own business needs and Shenergy Group does not intervene with our use of funds. We have opened basic accounts with banks independently and do not share any bank account with Shenergy Group. We have made tax filings and paid tax independently of Shenergy Group pursuant to applicable laws and regulations. We have established an independent finance department as well as implemented sound and independent audit, accounting and financial management systems. We have adequate internal resources and a strong credit profile to support our daily operation.

On June 6, 2013, Shenergy Group and our Company entered into a subordinated loan agreement, pursuant to which a subordinated loan in the amount of RMB800 million was advanced by Shenergy Group to our Company (the “Subordinated Loan”). The Subordinated Loan bears interest at the rate of 6.3% per annum. The Company intends to repay the Subordinated Loan when it becomes due on July 2, 2016.

RELATIONSHIP WITH SHENERGY GROUP

Pursuant to the Provisions on the Administration of Subordinated Loans Issued by Securities Firms (《證券公司次級債管理規定》) promulgated by the CSRC, long-term subordinated loans may be counted in the net capital of securities firms. The Subordinated Loan extended to us by Shenergy Group have been used by us to supplement our working capital and net capital. We believe that early repayment of the Subordinated Loan before [REDACTED] would be impracticable and not in the best interests of our Company and its Shareholders. If the Company were to terminate the Subordinated Loan prematurely, it would give rise to early termination liabilities and Shenergy Group could request the Company to pay penalties. In addition, if the Company were to refinance the existing Subordinated Loan with other financing facilities, the Company would incur additional costs, such as legal fees and commissions.

Our Directors are of the view that the Subordinated Loan would not affect our financial independence from Shenergy Group as our Group is able to obtain credit facilities from commercial banks and other independent financial institutions on market terms and conditions without any assistance, guarantee or security from Shenergy Group. The Company held excellent credit status and maintained long-term relationship with major domestic banks. During the Track Record Period, our Group issued five tranches of subordinated bonds in the total amount of RMB12.4 billion to qualified institutional investors, short-term financing bills in the total amount of RMB41.8 billion to qualified investors, securities firm short-term corporate bonds in the total amount of RMB3 billion to qualified investors, securities firm bonds in a total amount of RMB6 billion to qualified investors, and corporate bonds in a total amount of RMB12 billion to qualified institutional investors. In addition, during the Track Record Period, our Group issued RMB-denominated bonds in the total amount of RMB2.5 billion and USD-denominated bonds in the approximate total amount of US\$400 million to qualified investors offshore. All such subordinated loans or bonds were issued by our Group independently without any assistance, guarantee or security from Shenergy Group.

Please see the section headed “Connected Transactions” of this document for further details.

Save as disclosed above, as of the Latest Practicable Date, there was no outstanding loan extended by Shenergy Group or its associates to us and there is no guarantee provided for our benefit by Shenergy Group or any of its associates. The Subordinated Loan will be repaid on its maturity date shortly after [REDACTED]. As demonstrated above, our Group is able to obtain sufficient financing independently. After [REDACTED], we believe that our Company will remain capable of obtaining financing from external sources for our business operations upon market terms and conditions without reliance on Shenergy Group and will remain financially independent from Shenergy Group.

COMPETITION

As of the Latest Practicable Date, Shenergy Group together with its subsidiary, Shenergy Co., Ltd., held less than 5% of the shares of Haitong Securities Co., Ltd. (a company listed on the Hong Kong Stock Exchange with stock code: 6837 and Shanghai Stock Exchange with stock code: 600837) (“Haitong Securities”). As Shenergy Group is not a substantial shareholder of Haitong Securities, Shenergy Group’s interest in Haitong Securities does not constitute an interest in competing business which is required to be disclosed under Rule 8.10 of the Listing Rules. Neither Shenergy Group nor any of our Directors is interested in any business, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group’s business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH SHENERGY GROUP

In order to avoid any potential competition between Shenergy Group and us, Shenergy Group has provided a non-competition undertaking in favor of our Company on February 8, 2014 (the “Non-competition Undertaking”). In the Non-competition Undertaking, Shenergy Group confirmed that as of the date of undertaking, neither itself nor any of its directly or indirectly controlled companies or entities engaged in any business or operation which was in substantive competition with the business of our Group. Shenergy Group has undertaken that:

- (i) it will take effective measures to procure that itself and any of its directly or indirectly controlled companies or entities will not engage, in any manner, in any business or operation which competes or may compete with the business of our Group;
- (ii) it will not prejudice the interests of our Group or other shareholders of the Company by taking advantage of its position as the largest shareholder of the Company; and
- (iii) if it fails to comply with the above non-competition undertaking, it will cease to receive dividends from the Company and it will not transfer any Shares of the Company until it has taken measures to comply with the undertaking and such measures have been completed. If the Company or other investors suffer loss as a result of Shenergy Group’s failure to comply with the non-competition undertaking, Shenergy Group shall indemnify the Company or other investors for such losses in accordance with the applicable law.

CORPORATE GOVERNANCE

Our Company will comply with the provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules, which set out principles of good corporate governance in relation to, among other matters, directors, chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders.

Our Directors recognize the importance of good corporate governance to protect the interests of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and Shenergy Group:

- (i) the Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if the Company enters into connected transactions with Shenergy Group or its associates, the Company will comply with the applicable Hong Kong Listing Rules;
- (ii) where a Shareholders meeting is to be held for considering proposed transactions in which Shenergy Group or its associates has any material interest, Shenergy Group shall not vote on the resolutions and shall not be counted in the quorum for the voting;
- (iii) our Board will consist of a balanced composition of executive and non-executive Directors, including not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, details of whom are set out in the section headed “Directors, Supervisors and Senior Management,” individually and together possess the requisite knowledge and experience to perform their roles. They will review whether there is any conflict of interests between our Group and Shenergy Group and provide impartial and professional advice to protect the interest of our minority Shareholders;

RELATIONSHIP WITH SHENERGY GROUP

- (iv) where the advice from an independent professional, such as that from a financial advisor, is reasonably requested by our Directors (including the independent non-executive Directors), the appointment of such an independent professional will be made at the Company’s expenses; and
- (v) we have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and Shenergy Group, and to protect minority shareholders’ rights after the [REDACTED].

CONNECTED TRANSACTIONS

OVERVIEW

Our Group has entered into a number of transactions with individuals and entities that will become our connected persons (as defined under Chapter 14A of the Hong Kong Listing Rules) upon **[REDACTED]**, and such transactions will constitute exempt continuing connected transactions under the Hong Kong Listing Rules upon **[REDACTED]**.

Further, as our A Shares are listed on the Shanghai Stock Exchange, we will continue to be subject to and regulated by the SSE Listing Rules and other applicable laws and regulations in the PRC as long as our A shares remain listed. However, the requirements of the Hong Kong Listing Rules in relation to connected transactions differ from those of the SSE Listing Rules. In particular, the definition of connected person (especially the definition of associate) pursuant to the Hong Kong Listing Rules is different from the definition of related party pursuant to the SSE Listing Rules. Therefore, a connected transaction pursuant to the Hong Kong Listing Rules may not constitute a related party transaction pursuant to the SSE Listing Rules, and vice versa.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

(1) Subordinated Loan

On June 6, 2013, Shenergy Group and our Company entered into a subordinated loan agreement, pursuant to which a subordinated loan in the amount of RMB800 million was lent by Shenergy Group to our Company (the “Subordinated Loan”). The Subordinated Loan is repayable within three years from the date of drawdown and bears interest at the rate of 6.3% per annum. The proceeds of the Subordinated Loan were used by us to supplement our working capital and net capital.

Immediately following the completion of the **[REDACTED]**, Shenergy Group will be interested in approximately **[REDACTED]**% of our enlarged share capital assuming the **[REDACTED]** is not exercised (or approximately **[REDACTED]**% assuming the **[REDACTED]** is fully exercised). Hence, Shenergy Group is our connected person and the Subordinated Loan will constitute a connected transaction for us under Chapter 14A of the Hong Kong Listing Rules. The Directors are of the view that the Subordinated Loan provided by Shenergy Group to us was on normal commercial terms where no security over our Company’s assets was granted in respect of such Subordinated Loan, and as such, the transaction will be exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

Please see the section headed “Relationship with Shenergy Group—Independence from Shenergy Group—Financial Independence” of this document.

(2) Provision of securities brokerage and wealth management services to our Directors, Supervisors and their respective associates

In our ordinary course of business, we provide securities brokerage and wealth management services to our Directors, Supervisors and their respective associates (who are our connected persons) in accordance with the applicable laws and regulations. The terms and conditions of the securities brokerage and wealth management services (including but not limited to the commission, management fee and other fees charged by us) which we offered to such connected persons are on normal commercial terms comparable to those offered to Independent Third Parties. It is expected that we will

CONNECTED TRANSACTIONS

continue to provide securities brokerage and wealth management services to such connected persons after the [REDACTED], which will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

Given that the applicable percentage ratios in respect of the securities brokerage and wealth management services calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will, as our Directors currently expect, be less than 0.1% on an annual basis, the provision of securities brokerage and wealth management services by us to our Directors, Supervisors and their respective associates are *de minimis* transactions and thus will be fully exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(3) Provision of securities brokerage, asset management and securities underwriting services to Shenergy Group and its associates

In our ordinary course of business, we provide securities brokerage, asset management and securities underwriting services to Shenergy Group and its associates (who are our connected persons) in accordance with the applicable laws and regulations. The terms and conditions of the securities brokerage, asset management and securities underwriting services (including but not limited to the commission, management fee, underwriting fee and other fees charged by us) which we offered to Shenergy Group and its associates are on normal commercial terms comparable to those offered to Independent Third Parties. It is expected that we will continue to provide securities brokerage, asset management and securities underwriting services to Shenergy Group and its associates after the [REDACTED].

As Shenergy Group and its associates are connected persons of the Company, the provision of securities brokerage, asset management and securities underwriting services by us to Shenergy Group and its associates will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

Given that the applicable percentage ratios in respect of the securities brokerage, asset management and securities underwriting services calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will, as our Directors currently expect, be less than 0.1% on an annual basis, the provision of the securities brokerage, asset management and securities underwriting services by us to Shenergy Group and its associates are *de minimis* transactions and thus will be fully exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board currently consists of 15 Directors, and there is another independent non-executive Director elected at the Shareholders’ meeting, whose term will commence from the [REDACTED]. Of the abovementioned 16 Directors, two of them are executive Directors and eight of them are non-executive Directors. The rest are independent non-executive Directors. The Directors are elected at the Shareholders’ meetings. Directors serve for a term of three years and shall be subject to re-election upon retirement. Independent non-executive Directors shall not hold office for more than six consecutive years.

The Supervisory Committee currently consists of seven Supervisors, including the chairman of the Supervisory Committee. The Supervisors include three employee Supervisors and four shareholder Supervisors. The shareholder Supervisors and the employee Supervisors are elected at the Shareholders’ meetings and the staff representative assembly, respectively, for a term of three years and shall be subject to re-election upon retirement.

The following tables set forth information regarding our Directors, Supervisors and senior management. All of the Directors, Supervisors and senior management have met the qualification requirements under the relevant PRC laws and regulations and the Hong Kong Listing Rules for their respective positions.

Directors, Supervisors and Senior Management

The following table shows the key information of our Directors:

Name	Age	Date of joining the Group	Date of appointment for the current tenure as Director	Position for the current tenure	Responsibility
Mr. PAN Xinjun (潘鑫軍)	55	January 2003	October 2014	Chairman of the Board and executive Director Chairman of the Compliance and Risk Management Committee	Overseeing the affairs of the Board and supervising the implementation of resolutions of the Board; overseeing the Board’s office, the human resources management department and the strategic development department
Mr. JIN Wenzhong (金文忠)	51	December 1997	October 2014	Executive Director and president	Overseeing the daily management of the Company; assisting in overseeing the human resources management; overseeing the securities investment business department, the fixed income business department, the wealth management business department, the financial derivatives business department and the equity investment and trading business department
Mr. WU Jianxiong (吳建雄)	50	October 2014	October 2014	Vice Chairman of the Board and non-executive Director Chairman of the Strategy Development Committee	Assisting the chairman in overseeing the affairs of the Board and supervising the implementation of resolutions of the Board; participating in decision-making in respect of major matters, such as operation strategies etc.
Mr. ZHANG Qian (張芊)	42	June 2002	October 2014	Non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies etc.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining the Group	Date of appointment for the current tenure as Director	Position for the current tenure	Responsibility
Mr. WU Junhao (吳俊豪)	50	March 2011	October 2014	Non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies etc.
Mr. CHEN Bin (陳斌)	34	October 2014	October 2014	Non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies etc.
Mr. LI Xiang (李翔)	44	October 2014	October 2014	Non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies etc.
Mr. XU Chao (徐潮)	60	March 2011	October 2014	Non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies etc.
Mr. CHEN Bichang (陳必昌)	56	February 2012	October 2014	Non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies etc.
Mr. ZHOU Yao (周堯)	48	May 2005	October 2014	Non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies etc.
Mr. LI Zhiqiang (李志強)	48	March 2011	October 2014	Independent non-executive Director Chairman of the Remuneration and Nomination Committee	Participating in decision-making in respect of such material events as operation strategies, expressing independent opinions on material events involving the interests of minority shareholders
Mr. XU Guoxiang (徐國祥)	56	August 2014	October 2014	Independent non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies, expressing independent opinions on major matters involving the interests of minority shareholders
Mr. TAO Xiuming (陶修明)	51	October 2014	October 2014	Independent non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies, expressing independent opinions on major matters involving the interests of minority shareholders
Mr. WEI Anning (尉安寧)	53	October 2014	October 2014	Independent non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies, expressing independent opinions on major matters involving the interests of minority shareholders
Mr. PAN Fei (潘飛)	59	May 2015	June 2015	Independent non-executive Director Chairman of Audit Committee	Participating in decision-making in respect of major matters, such as operation strategies, expressing independent opinions on major matters involving the interests of minority shareholders
Mr. XU Zhiming (許志明) ⁽¹⁾	54	September 2015	September 2015	Independent non-executive Director	Participating in decision-making in respect of major matters, such as operation strategies, expressing independent opinions on major matters involving the interests of minority shareholders

Note:

(1) The appointment of Mr. Xu Zhiming will take effect from the [REDACTED].

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table shows the key information of our Supervisors:

Name	Age	Date of joining the Group	Date of appointment for the current tenure as Supervisor	Position for the current tenure	Responsibility
Mr. SONG Xuefeng (宋雪楓)	46	August 2013	October 2014	Chairman of the Supervisory Committee	Overseeing the affairs of the Supervisory Committee and supervising operation and financial activities of our Group as well as the performance of Directors and senior management
Mr. LI Bin (李賓)	56	March 2014	November 2014	Vice chairman of the Supervisory Committee and employee Supervisor	Assisting the chairman of the Supervisory Committee in overseeing the affairs of the Supervisory Committee; supervising operation and financial activities of our Group on behalf of employees as well as the performance of Directors and senior management
Mr. LIU Wenbin (劉文彬)	40	March 2011	October 2014	Supervisor	Supervising operation and financial activities of our Group as well as the performance of Directors and senior management
Mr. YIN Keding (尹克定)	52	October 2014	October 2014	Supervisor	Supervising operation and financial activities of our Group as well as the performance of Directors and senior management
Mr. WU Zhengkui (吳正奎)	41	February 2012	October 2014	Supervisor	Supervising operation and financial activities of our Group as well as the performance of directors and senior management
Mr. ZHOU Wenwu (周文武)	54	November 2000	August 2015	Employee Supervisor	Supervising operation and financial activities of our Group on behalf of employees as well as the performance of Directors and senior management
Mr. YAO Yuan (姚遠)	42	March 1998	October 2014	Employee Supervisor	Supervising the operation and financial activities of our Group on behalf of employees as well as the performance of Directors and senior management

The following table shows the key information of our senior management:

Name	Age	Date of joining the Company	Date of appointment for the current tenure	Position for the current tenure	Responsibility
Mr. JIN Wenzhong (金文忠)	51	December 1997	October 2014	Executive Director and President	Overseeing the daily management of the Company; assisting in overseeing the human resources management; overseeing the securities investment business department, the fixed income business department, the wealth management business department, the financial derivatives business department and the equity investment and trading business department
Mr. YANG Yucheng (楊玉成)	50	May 2004	October 2014	Vice president and secretary to the Board	Overseeing the securities finance business department, securities research institute and the general office of overseas business department
Mr. SHU Hong (舒宏)	48	November 1998	April 2014	Vice president	Overseeing the operation management department, system research and development department, system operation department, OTC business department and custody business department

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining the Company	Date of appointment for the current tenure	Position for the current tenure	Responsibility
Mr. ZHANG Jianhui (張建輝)	47	March 1998	July 2015 (vice president) May 2014 (chief financial officer)	Vice president and chief financial officer	Overseeing the Beijing office, the finance planning management department and fund management department
Mr. DU Weihua (杜衛華)	51	June 1998	August 2015	Vice president	Overseeing the office and the administrative management department
Mr. YANG Bin (楊斌)	43	May 2015	June 2015 (chief risk control officer) July 2015 (chief compliance officer)	Chief risk control officer and chief compliance officer	Overseeing the auditing department, risk management department and compliance and legal department

Mr. Pan Xinjun, the chairman of the Board, is responsible for our overall business strategy and major business decisions. Mr. Jin Wenzhong, an executive Director and our president, is responsible for our general management and day-to-day operation. Our non-executive Directors, including our independent non-executive Directors, perform their duties through the Board and do not participate in the day-to-day management of our business operations. The members of our senior management are responsible for the day-to-day management of our business operations.

DIRECTORS

Executive Directors

Mr. Pan Xinjun, aged 55, is an executive Director and chairman of the Board. Mr. Pan joined the Company in January 2003 and was appointed as the chairman of the Board and the party committee secretary in January 2010. Mr. Pan has been serving as the chairman of the board at Citi Orient since June 2012 and a director of Orient Securities Asset Management since July 2010.

Mr. Pan served as the acting branch secretary and also branch secretary of Yuyuan Road corporate sub-office of Changning district office of Industrial and Commercial Bank of China, Shanghai branch from June 1984 to January 1986, and served as liaison of the party rectification office, the party branch secretary of Yuyuan Road corporate sub-office of Changning district office and a senior staff member of the organization division of the Industrial and Commercial Bank of China (ICBC), Shanghai branch from March 1985 to October 1988. From November 1988 to January 2003, Mr. Pan held the positions of chairman of the labor union, vice-president and president of the branch, and party committee secretary in Industrial and Commercial Bank of China, Shanghai branch, Changning district office. In addition, Mr. Pan served as the president of the Company from January 2003 to September 2010, the chairman of China Universal Asset Management Company Limited from June 2012 to April 2015, a director of Orient Finance Hong Kong from November 2014 to August 2015, the chairman and a director of Orient Securities Capital Investment from March 2013 to August 2015.

Mr. Pan graduated from Macau University of Science and Technology with a master’s degree in business administration in January 2003, and obtained the qualification of senior economist in September 1997.

Mr. Jin Wenzhong, aged 51, is an executive Director and our president. Mr. Jin joined the Company in December 1997 and was appointed as a Director, our president and the deputy party

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

committee secretary in September 2010. Mr. Jin has been serving as a director and the chairman of the board of Orient Securities Capital Investment since March 2013, the chairman of the board of Orient Securities Futures since December 2014, a director of Orient Securities Innovation Investment since November 2012, a director of Orient Securities Asset Management since July 2010, and a director of Citi Orient since June 2012.

Mr. Jin served as the assistant manager of the distribution department, the deputy director of the research institute and the assistant to the president of Wanguo Securities from January 1992 to September 1995. He also served as a member of the party committee and the deputy general manager of the Company from December 1997 to September 2010. Mr. Jin also served as a director of the board of Orient Finance Hong Kong from February 2010 to November 2014.

Mr. Jin graduated from Shanghai University of Finance and Economics with a master’s degree in economics in January 1988 and a bachelor’s degree in economics in July 1985, and obtained the qualification of economist in October 1992.

Non-executive Directors

Mr. Wu Jianxiong, aged 50, is a non-executive Director and our vice chairman of the Board. Mr. Wu joined the Company and was appointed as a Director in October 2014 and as vice chairman of the Board in December 2014. Mr. Wu has been serving as the deputy party secretary of Shenergy Group since March 2008, the general manager of Shenergy Group since April 2008, and the chairman of the board of Shenergy Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600642) (“Shenergy Ltd”) since May 2011.

Mr. Wu served as an assistant engineer and an engineer in the engineering department of Shenergy Electric Power Company from March 1989 to September 1993, an assistant to the manager of the planning department of Shenergy Ltd from September 1993 to January 1994, and an assistant to the general manager, deputy general manager, director and general manager of Shanghai Shenergy Real Estate Co., Ltd. from January 1994 to June 1999. He also served as an assistant to the general manager, deputy general manager and director of Shenergy Ltd from June 1999 to June 2005, the executive vice president and chairman of the board of Shanghai LNG Co., Ltd. from December 2004 to April 2010, the chairman of the board of Shanghai Gas (Group) Co., Ltd. from May 2008 to June 2011, as well as an assistant to the general manager and the deputy general manager of Shenergy Group from December 2003 to April 2008.

Mr. Wu graduated from Shanghai Polytechnic University with a master’s degree in engineering in April 1989 and a bachelor’s degree in engineering in June 1986, and obtained the qualifications of senior engineer and professorate senior engineer in February 2000 and December 2014, respectively.

Mr. Zhang Qian, aged 42, is a non-executive Director. Mr. Zhang joined the Company and was appointed as a Director in June 2002. Mr. Zhang has been serving as the deputy general manager of Shenergy Group since September 2015, and the general manager of Shenergy Group Finance Co., Ltd. since October 2009.

Mr. Zhang joined Shenergy Group in July 1996, serving as the deputy director and the director of the comprehensive management department of Shenergy Group from January 2001 to October 2004, a director of Guotai Junan Investment Management Co., Ltd. from August 2003 to October 2007, a director of China Pacific Life Insurance Co., Ltd. from June 2006 to December 2007, the deputy manager and the manager of the financial asset department of Shanghai Shenergy Asset Management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Co., Ltd. from January 2004 to December 2005, and the deputy general manager of Shenergy Group Finance Co., Ltd. from February 2007 to July 2009.

Mr. Zhang obtained a master’s degree in business administration from Webster University in the cooperative MBA cultivation project of Shanghai University of Finance and Economics and Webster University in October 2000, and a bachelor’s degree in economics from Shanghai International Studies University in July 1996.

Mr. Wu Junhao, aged 50, is a non-executive Director. Mr. Wu joined the Company and was appointed as a Director in March 2011. Mr. Wu has been serving as the manager of the financial management department of Shenergy Group since April 2011, a director of China Pacific Insurance (Group) Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 601601, H share stock code on the Hong Kong Stock Exchange: 02601) since July 2012, and a director of China Pacific Life Insurance Co., Ltd. since July 2012. Mr. Wu has also been serving as a director of China Pacific Property Insurance Co., Ltd. since July 2012, a director of Shanghai Jiulian Group Co., Ltd. since April 2012, and a director of Shanghai ICY New Energy Venture Capital Co., Ltd. since October 2010. In addition, he has been serving as a director of Chengdu Xinshen Venture Capital Co., Ltd. since July 2011, a supervisor of China Everbright Bank Company Limited (A share stock code on the Shanghai Stock Exchange: 601818, H share stock code on the Hong Kong Stock Exchange: 06818) since November 2009, and a supervisor of Shanghai ICY Capital Co., Ltd. since March 2010.

Mr. Wu served as the deputy director of Shanghai Shenergy Asset Management Co., Ltd. from September 2003 to January 2006. Mr. Wu also held several positions in Shenergy Group from February 2006 to April 2011, including the deputy director, director and senior manager of the asset management department, and the vice president (acting head) of the financial management department.

Mr. Wu graduated from East China Normal University with a master’s degree in management in July 2000 and a bachelor’s degree in economics in July 1986.

Mr. Chen Bin, aged 34, is a non-executive Director. Mr. Chen joined the Company and was appointed as a Director in October 2014. Mr. Chen has been serving as an assistant to the chief of the investment section of Shanghai Tobacco Group Co., Ltd. since May 2014, an assistant to the general manager of Shanghai Haiyan Investment Management Company Limited since May 2014, and a director of Haitong Securities Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600837, H share stock code on the Hong Kong Stock Exchange: 06837) (“Haitong Securities”) since December 2014.

Mr. Chen served as an administrator, assistant to the chief, and chief of the project management division of the investment section of Shanghai Tobacco (Group) Company (now renamed as Shanghai Tobacco Group Co., Ltd.) from July 2003 to May 2014.

Mr. Chen graduated from Fudan University with a master’s degree in economics in June 2011 and a bachelor’s degree in science in July 2003.

Mr. Li Xiang, aged 44, is a non-executive Director. Mr. Li joined the Company and was appointed as a Director in October 2014. Mr. Li has also been serving as the director of the operation management office of Shanghai United Media Group since October 2013, an executive director and legal representative of Shanghai Wenxin Economic Development Co., Ltd. since April 2010, and a

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

director of Shanghai Wenxin Investment Co., Ltd. since May 2010. In addition, Mr. Li has been serving as a director of Shanghai Xinmin Media & Advertisement Co., Ltd. since February 2010, a director of Shanghai Call Center Co., Ltd. since July 2009, and a director of Shanghai Wenhui Xinmin Industrial Co., Ltd. since November 2010. Further, he has also been serving as a director of Shanghai Xinhua Publishing Group Limited since May 2014, a director of JieMian (Shanghai) Internet Technology Co., Ltd. since September 2014, a director of Jingwen Real Estate (Group) Co., Ltd. since July 2015, a director of Shanghai Shangbao Asset Management Co., Ltd. since September 2015, a director of China Universal Asset Management Co., Ltd. since April 2015, and a director of Shanghai Morning Post Culture Media Co., Ltd. since January 2016.

Mr. Li served as deputy director of the economy department of Shanghai Wen Hui Daily from February 2002 to January 2004, chief journalist from June 2006 to May 2008, and the deputy director and director of the economic management department of Wenhui—Xinmin United Press Group from January 2008 to October 2013.

Mr. Li graduated from Fudan University with a bachelor’s degree in arts in July 1995.

Mr. Xu Chao, aged 60, is a non-executive Director. Mr. Xu joined the Company and was appointed as a Director in March 2011. Mr. Xu has also been serving as an executive director and general manager of Shanghai Electric Group Hongkong Company Limited since May 2015, the deputy chief economist of Shanghai Electric (Group) Corporation since December 2013, the vice chairman of the board of Shanghai Highly (Group) Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600619) since June 2011, and a director of Haitong Securities since May 2011.

Mr. Xu served as the vice secretary and secretary of CPC party branch, deputy director of the factory director’s office, chief of the finance section and deputy chief accountant of Shanghai Turbine Works from May 1986 to February 1999. He served as the chief accountant, chief of the finance department, chief financial officer and vice president of Shanghai Turbine Co., Ltd. from February 1999 to August 2011. Mr. Xu also served as an assistant to the president, chief financial officer and vice president of Shanghai Electric Capital Management Co., Ltd. from October 2006 to December 2013. Mr. Xu was the director of the financial budget department of Shanghai Electric (Group) Corporation from October 2010 to August 2011, the director of the investment management department of Shanghai Electric (Group) Corporation from December 2013 to March 2015, the executive director, general manager and deputy party committee secretary of Shanghai Electrical Industrial Investment Co., Ltd. from August 2009 to March 2015, the chairman of the supervisory committee of Shanghai Automation Instrument Co., Ltd. (now known as Shanghai Lingang Holdings Corporation Limited, A share stock code on the Shanghai Stock Exchange: 600848) from June 2011 to June 2014, the chairman of the supervisory committee of Shanghai Prime Machinery Company Limited (H share stock code on the Hong Kong Stock Exchange: 02345) from May 2010 to December 2012, and executive director and vice chairman of the board from December 2012 to June 2013.

Mr. Xu graduated from China Europe International Business School with a master’s degree in business administration in April 2000, and obtained the qualification of senior economist in December 2009.

Mr. Chen Bichang, aged 56, is a non-executive Director. Mr. Chen joined the Company in February 2012 and was appointed as a Director in March 2012. Mr. Chen has also been serving as the party committee secretary and general manager of Shanghai Post Company since February 2011, and

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the chairman of the board of Shanghai Oriental Books & Newspaper Services Co., Ltd. since May 2012. In addition, he has been serving as the chairman of the board of Shanghai Jieshiba Postal Delivery Company since July 2011, the chairman of the board of Shanghai Post Real Estate Development & Operation Co., Ltd. since July 2011, and the chairman of the board of Shanghai Post Property Management Co., Ltd. since September 2011. He has also been serving as the chairman of the board of Shanghai Post Industrial Development Corporation since January 2012, the chairman of the board of Shanghai Youbika Trading Center Co., Ltd. since December 2013, as well as a director of Shanghai Pudong Development Bank Co., Ltd. (A share stock code on Shanghai Stock Exchange: 600000) since May 2015.

Mr. Chen served as a programmer, assistant engineer and engineer in the Third Research Institute of the Ministry of Posts and Telecommunications from September 1979 to December 1988, an engineer, section chief and deputy chief of the post division of Shenzhen Municipal Post Bureau from December 1988 to February 1998, and the deputy director of Guangdong Provincial Postal Administration from February 1998 to October 1998. He also served as the deputy division chief, division chief, and assistant to the director of Guangdong Provincial Postal Administration Engineering Construction Department from January 1999 to November 2001, and the head of the electronic postal office of the State Post Bureau from June 2000 to July 2001. In addition, he served as the director and deputy party secretary of Shenzhen Municipal Postal Administration (deputy-director level) from November 2001 to January 2003, the deputy director of Guangdong Provincial Postal Administration from March 2003 to December 2006, the director of Shandong Provincial Postal Administration from December 2006 to February 2007, as well as the general manager of Shandong Post Company from February 2007 to February 2011.

Mr. Chen graduated from University of Minnesota with a master’s degree in business administration in May 2004, and graduated from Shanghai Polytechnic University with a bachelor’s degree in engineering in July 1986.

Mr. Zhou Yao, aged 48, is a non-executive Director. Mr. Zhou joined the Company in May 2005 and was appointed as a Director in March 2011. Mr. Zhou has also been serving as the general manager of the project management center of Shanghai Jinqiao (Group) Co., Ltd. since August 2014, a director of Shanghai Jinqiao Export Processing Zone Real Estate Development Co., Ltd. since April 2005, as well as a director of Shanghai Huademeiju Supermarket Co., Ltd. since September 2007.

Mr. Zhou served as the deputy director of the environmental protection department of the Environmental Protection, City Appearance and Sanitation of Pudong New Area of Shanghai City from October 2003 to March 2005, an assistant to the general manager of Shanghai Jinqiao Export Processing Zone Development Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600639, B share stock code on the Shanghai Stock Exchange: 900911) from March 2005 to June 2007, and the vice general manager from October 2007 to August 2014, and a Supervisor of the Company from May 2005 to March 2011.

Mr. Zhou obtained a master’s degree in management from Tongji University in June 1999, a master’s degree in business administration from China Europe International Business School in September 2012, and a bachelor’s degree in engineering from Shanghai Polytechnic University in June 1990.

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Independent non-executive Directors

Mr. Li Zhiqiang, aged 48, is an independent non-executive Director. Mr. Li joined the Company and was appointed as an independent Director in March 2011. Mr. Li has been a founding partner of Jin Mao Kai De Partners since June 2008, an independent director of Shanghai M&G Stationery Inc. (A-share stock code on the Shanghai Stock Exchange: 603899) since June 2011, an independent director of China Haisum Engineering Co., Ltd. (A share stock code on the Shenzhen Stock Exchange: 002116) since May 2011, and an independent director of Shanghai Waigaoqiao Free Trade Zone Development Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600648, B share stock code on the Shanghai Stock Exchange: 900912) since May 2014.

Mr. Li served as the senior partner of Jin Mao Partners from July 1990 to July 2008 and an independent director of Shanghai Jin Jiang International Hotels Development Company Limited (A share stock code on the Shanghai Stock Exchange: 600754, B share stock code on the Shanghai Stock Exchange: 900934) from May 2009 to September 2015.

Mr. Li graduated from Fudan University with a master’s degree in law in July 1996, and he obtained his bachelor’s degree in law from East China University of Political Science and Law in July 1990. He was qualified as a PRC lawyer in December 1990.

Mr. Xu Guoxiang, aged 56, is an independent non-executive Director. Mr. Xu joined the Company in August 2014 and was appointed as an independent Director in October 2014. Mr. Xu has been a director of the research center for applied statistics of Shanghai University of Finance and Economics since June 2003, an independent director of Baoding Tianwei Baobian Electric Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600550) since May 2002, an independent director of China Enterprise Company Limited (A share stock code on the Shanghai Stock Exchange: 600675) since June 2003, a supervisor of Dazhong Transportation (Group) Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600611) since May 2000, the chairman of the supervisory committee of Shanghai Xintonglian Packaging Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 603022) since November 2011, and an independent director of Luzhou Laojiao Co., Ltd. (A share stock code on the Shenzhen Stock Exchange: 000568) since June 2015.

From January 1986 to May 2003, Mr. Xu held the positions of lecturer, associate professor, professor and the department head of the department of statistics of Shanghai University of Finance and Economics.

Mr. Xu graduated from Xiamen University with a doctorate in economics in June 1999. He obtained his master’s and bachelor’s degrees in economics from Shanghai University of Finance and Economics in March 1986 and January 1983, respectively.

Mr. Tao Xiuming, aged 51, is an independent non-executive Director. Mr. Tao joined the Company and was appointed as an independent Director in October 2014. Mr. Tao has been a founding partner and the management committee director of JunZeJun Law Offices since July 1995, a director of Gao Lin Capital Management Co., Ltd. since April 2014, an executive director of Beijing Houjian Investment Co., Ltd. since March 2014, and an independent director of Taikang Asset Management Co., Ltd. since November 2014.

Mr. Tao served in the China Law Counsel Center from July 1989 to April 1992 and served in the Institute of International Law of Chinese Academy of Social Sciences from April 1992 to

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December 1994. He also served as an independent director of NQ Mobile Inc, a company listed on the New York Stock Exchange, from May 2012 to December 2014.

Mr. Tao graduated from University of International Business and Economics with a doctorate degree in international law in December 2007. He obtained his master’s degree in private international law from Chinese Academy of Social Sciences in July 1989 and his bachelor’s degree in international law from Jilin University in July 1986.

Mr. Wei Anning, aged 53, is an independent non-executive Director. Mr. Wei joined the Company and was appointed as an independent Director in October 2014. Mr. Wei has been an executive director and general manager of Shanghai Guwang Investment Management Limited since September 2010, an independent director of Ningbo Tech-Bank Co., Ltd. (A share stock code on the Shenzhen Stock Exchange: 002124) since August 2013, an independent director of Fortune SG Fund Management Co., Ltd. since September 2015, a director of Hangzhou United Rural Commercial Bank Co. Ltd. since January 2011, and an independent director of DaChan Food (Asia) Limited (H share stock code on the Hong Kong Stock Exchange: 03999) since October 2014.

Mr. Wei also held various positions before joining the Company, which include director and director of agriculture, food, industry and commerce of Rabobank from February 1998 to January 2003, the president of Shanghai branch of Fortis Bank Belgium from June 2009 to July 2010, and the chairman of the board of Shandong Pacific Zhonghui Group from August 2010 to August 2012.

Mr. Wei graduated from the University of Illinois with a doctorate in agricultural economics in January 1997. He obtained a master’s degree in economic development from Williams College in June 1991, a master’s degree in economics from Peking University in December 1986 and a bachelor’s degree in economics from Nankai University in December 1982.

Mr. Pan Fei, aged 59, is an independent non-executive Director. Mr. Pan joined the Company in May 2015 and was appointed as an independent Director in June 2015. Mr. Pan has been a professor and a doctoral supervisor of the school of accountancy of Shanghai University of Finance and Economics since July 2000, an independent director of Bright Dairy & Food Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 600597) since July 2009, an independent Director of Universal Scientific Industrial (Shanghai) Co., Ltd. (A share stock code on the Shanghai Stock Exchange: 601231) since March 2011, an independent director of Shanghai M&G Stationery Inc. (A share stock code on the Shanghai Stock Exchange: 603899) since June 2011, and an independent director of Jiangsu Yabaite Technology Co., Ltd. (A share stock code on the Shenzhen Stock Exchange: 002323) since August 2015.

Mr. Pan has been an independent director of Shanghai Wanye Enterprises Co., Ltd. (A-share stock code in Shanghai Stock Exchange: 600641) from April 2001 to May 2015, an independent director of Sunyoung Properties Co., Ltd. (now known as Infotmic Co., Ltd., A-share stock code on the Shenzhen Stock Exchange: 000670) from March 2008 to August 2013, an independent director of Shanghai Bailian Group Co., Ltd. (A-share stock code on the Shanghai Stock Exchange: 600827) from June 2010 to June 2015.

Mr. Pan obtained his doctorate in management from Shanghai University of Finance and Economics in January 1999, a master’s degree in economics from the school of accountancy of

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Shanghai University of Finance and Economics in March 1991 and a bachelor’s degree in economics from Shanghai University of Finance and Economics in January 1983.

Mr. Xu Zhiming, aged 54, is an independent non-executive Director. Mr. Xu was appointed as an independent Director in September 2015, whose appointment will be effective from the [REDACTED]. Mr. Xu has been a founding partner of China Broadband Capital since March 2006.

Mr. Xu served as an executive director and the chief operating officer of TOM Online Inc. (original H share stock code on the Hong Kong Stock Exchange: 8282; subsequently delisted) from October 2003 to May 2005, an executive director of China Resources Enterprise, Limited, (now known as China Resources Beer (Holdings) Company Limited, H share stock code on the Hong Kong Stock Exchange: 0291) from October 1999 to November 2001, the managing director and the chief operating officer of China Resources Logic Limited (now known as China Resources Gas Group Limited, H share stock code on the Hong Kong Stock Exchange: 1193) from June 2000 to November 2001, a research analyst of Institute for International Studies in China International Trust and Investment Corporation from December 1986 to February 1989, and the co-director of capital market department of Nomura International (Hong Kong) Limited from February 1993 to November 1995.

Mr. Xu graduated from University of Manchester with a doctorate degree in economics in July 1993. He obtained his master’s degree in economics from Graduate School of Chinese Academy of Social Sciences in July 1986, and his bachelor’s degree in physics from Peking University in July 1983.

SUPERVISORS

Mr. Song Xuefeng, aged 46, is the chairman of the Supervisory Committee. Mr. Song joined the Company in August 2013 and was appointed as the chairman of the Supervisory Committee in October 2014. Mr. Song has been serving as a deputy general manager of Shenergy Group since August 2014, the chairman of the supervisory committee of Shenergy Ltd. since May 2011 to the present, the chairman of the board of Shanghai ICY Capital Co., Ltd. since July 2013, an executive director of Shanghai ICY New Energy Venture Capital Co., Ltd. since July 2013 and an executive director of Shanghai ICY Capital Management Ltd. since December 2012, and an executive director of Chengdu ICY Capital Management Ltd. since December 2012.

Mr. Song served as a Director of our Company from August 2013 to October 2014, the deputy manager and manager of the financial department of Shenergy Co., Ltd. from March 2001 to May 2008, an assistant to the general manager and planning and finance manager, chief accountant and financial manager, deputy general manager and chief accountant at Shenergy Co., Ltd. from April 2005 to May 2011, a temporary assistant mayor of Zigong, Sichuan from October 2010 to October 2011, and the assistant general manager of Shenergy Group from January 2012 to August 2014.

Mr. Song obtained his doctorate in management, a master’s degree in engineering, and a bachelor’s degree in engineering from Shanghai Jiao Tong University in December 2006, February 1995 and July 1992, respectively. He became a non-practicing member of the Shanghai Institute of Certified Public Accountants in 1998 and is recognized as a senior economist by Shanghai Economics Senior Professional and Technical Title Qualification Evaluating Committee in July 2007. Mr. Song was accredited as an engineer in February 1998.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Li Bin, aged 56, is the vice chairman of the Supervisory Committee. Mr. Li joined the Company in March 2014 and was appointed as our employee Supervisor in October 2014 and as the vice chairman of the Supervisory Committee in November 2014. Mr. Li was appointed as the deputy party committee secretary, and the secretary of discipline inspection commission of the Company in March 2014.

Mr. Li served as a mechanic in Beijing Air Force Unit 39583 from February 1978 to January 1981, the league officer, deputy secretary, secretary, human resources manager, party branch secretary of assembly shop of Shanghai Construction Machinery Plant from July 1981 to September 1988, the director of general manager office and director of party committee office of Shanghai Petrochemical Equipment Company from September 1988 to August 1996, the senior staff of the human resources department of Shanghai Pricing Bureau from August 1996 to July 2000, the office senior staff, deputy director, deputy party secretary, secretary of discipline inspection commission and director of CPC Shanghai financial working committee from July 2000 to April 2011, and the director of human resources offices (human resources department, veteran services office) of CPC Shanghai financial working committee from April 2011 to March 2014.

Mr. Li obtained his bachelor’s degree in economic administration from the Correspondence School of the Central Party School in December 1994, the qualification of intermediate economist from the Economic Series Mid-level Positions Evaluation Committee of the Shanghai Mechanical and Electrical Industry Administrative Bureau in August 1993, and the qualification of intermediate administrative engineer from Administrative Series Mid-level Professional Positions Evaluation Committee of the Shanghai Mechanical and Electrical Industry Administrative Bureau in November 1991.

Mr. Liu Wenbin, aged 40, is a Supervisor. Mr. Liu joined the Company in March 2011 and was appointed as Supervisor. Mr. Liu has served as the chief financial officer of Great Wall Information Industry Co., Ltd. (A share stock code on the Shenzhen Stock Exchange: 000748) since September 2013.

Mr. Liu served as the chief accountant, financial manager, financial department director and deputy chief accountant of Great Wall Information Industry Co., Ltd. and its subsidiary from June 2000 to August 2013.

Mr. Liu obtained his master’s degree in accounting from Hunan University in December 2007, obtained his bachelor’s degree in accounting from Hunan University through long-distance education in June 1999, and was granted the title of senior accountant in December 2006.

Mr. Yin Keding, aged 52, is a Supervisor. Mr. Yin joined the Company and was appointed as Supervisor in October 2014. Mr. Yin has served as the chief accountant of Shanghai Construction Group (A-share stock code on the Shanghai Stock Exchange: 600170) since December 2012, and as a director of Shanghai Pudong CCB Rural Bank Company Limited from February 2014.

Mr. Yin served as the finance director of the overseas business department of Shanghai Construction Group from July 1987 to July 2001, the chief financial officer of HKC (Holdings) Limited (H share stock code on the Hong Kong Stock Exchange: 00190) from July 2001 to June 2004, the deputy director of the financial department of Shanghai Construction Group from June 2004 to January 2005, the chief accountant of Shanghai Construction Group south branch from January 2005 to

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January 2009, as the chief accountant of Shanghai No.2 Construction Company Limited from January 2010 to October 2011, and the deputy chief accountant of Shanghai Construction Group (A share stock code on the Shanghai Stock Exchange: 600170) from October 2011 to December 2012.

Mr. Yin received his bachelor’s degree in economics from Shanghai University of Finance and Economics in July 1987, and was granted the title of senior accountant in March 2003.

Mr. Wu Zhengkui, aged 41, is a Supervisor. Mr. Wu joined the Company and was appointed as Supervisor in February 2012. Mr. Wu has served as the deputy manager of the financial department of Greenland Holding Group Company Limited, the director of the Bank of Jinzhou Co., Ltd. (H share stock code on the Hong Kong Stock Exchange: 00416) since November 2011, the director of Shanghai Rural Commercial Bank since December 2011, the executive director of Greenland Hong Kong Holdings Limited (H share stock code on the Hong Kong Stock Exchange: 00337) since August 2013, and a non-executive director of China Greenland Rundong Auto Group Limited (H share stock code on the Hong Kong Stock Exchange: 01365) since August 2015.

Mr. Wu obtained his master’s degree in accounting from Fudan University in June 2008 and his bachelor’s degree in engineering from Liaoning Technical University in July 1998, and was granted the qualification of intermediate level accountant in May 2004.

Mr. Zhou Wenwu, aged 54, is an employee Supervisor. Mr. Zhou joined the Company in November 2000 and was appointed as employee Supervisor in August 2015. Mr. Zhou has served as the vice chairman of the trade union of the Company since November 2014 and as the deputy director of retirement management committee since February 2015.

Mr. Zhou served as the assistant manager of the financial department of Shanghai Jinqiao Export Processing Zone Joint Development Co., Ltd. from October 1992 to January 1997, the manager of the Third Brokerage Branches of Shanghai Pharmaceutical Biotechnology Industrial Park Medicine Sales Co., Ltd. from August 1999 to October 2000, and the commissioner for Liaoning administration department, assistant to the general manager for the fund management department, and deputy general manager for the fund management department of the Company from December 2000 to December 2014.

Mr. Zhou graduated from Shanghai Maritime College with a bachelor’s degree in economics in July 1984.

Mr. Yao Yuan, aged 42, is an employee Supervisor. Mr. Yao joined the Company in March 1998 and was appointed as employee Supervisor in October 2014. Mr. Yao has served as the deputy general manager of the Legal and Compliance Management Department of the Company (supervising the relevant works) since December 2014. He is also a supervisor of Orient Securities Capital Investment since August 2015.

Mr. Yao served as an employee of Yangpu securities branch of Shanghai Pudong Development Bank from September 1993 to March 1998 and as the corporate auditing clerk, supervisor, senior supervisor, senior executive, assistant to the general manager and deputy general manager of the Company from March 1998 to December 2014.

Mr. Yao graduated from the Open University of China in July 2004 and became a non-practicing member of the Chinese Institute of Certified Public Accountants in 2006.

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SENIOR MANAGEMENT

Mr. Jin Wenzhong, president. For the biography of Mr. Jin, please refer to “—Directors—Executive Directors” of this section.

Mr. Yang Yucheng, aged 50, is a vice president. Mr. Yang joined the Company in May 2004. He was appointed as vice president in June 2006 and July 2009, and as the secretary to the board in January 2012. Mr. Yang has served as the chairman of the board of Orient Finance Hong Kong since December 2011, the director of Orient Securities Asset Management since July 2010, the director of Great Wall Fund Management Co. Ltd. since September 2014, and the chairman of the supervisory committee of Citi Orient since February 2015.

Mr. Yang was a teacher in the finance department of Shanghai University of Finance and Economics from August 1987 to July 1993 and served in Guotai Junan Securities Co., Ltd. from August 1993 to January 1999. He also served as the director and board secretary of Shanghai Dazhong Enterprises of Science and Technology, Ltd. (now known as Shanghai Dazhong Public Utilities (Group) Co., Ltd., A-share stock code on the Shanghai Stock Exchange: 600635) from April 1999 to April 2002, the deputy general manager and general manager of Shanghai Shenergy Asset Management Co., Ltd. from October 2006 to June 2007, the chief financial officer and deputy general manager of the Company from May 2004 to March 2007, and the director and general manager of Shenergy Group Finance Co., Ltd. from February 2007 to July 2009.

Mr. Yang graduated from Shanghai University of Finance and Economics with a master’s degree in economics in January 1999, obtained a bachelor’s degree in economics from Shanghai University of Finance and Economics in July 1986, and was granted the title of senior economist in July 2006.

Mr. Shu Hong, aged 48, is a vice president. Mr. Shu joined the Company in November 1998 and was appointed as vice president in April 2014. Mr. Shu has served as the director of Shanghai Qizhong Golf Club Company Limited since November 2009.

Mr. Shu served as the manager for the computer network center system development department of Shenyin & Wanguo Securities Co., Ltd. from March 1993 to November 1998, and the head of the Information Technology Center and general manager of the Company from November 1998 to March 2004. He further served as the assistant to the general manager and general manager of the Information Technology Center, assistant to the general manager and general manager of the brokerage business department, director of IT technology and assistant to the general manager, chief operating officer and assistant to general manager, and operating director (now renamed as “chief operating officer”) of the Company from December 2001 to April 2014. He was also the director of Orient Securities Futures since December 2007 to February 2016.

Mr. Shu graduated from Shanghai Jiao Tong University with a master’s degree in business administration in June 1999, and obtained a master’s degree in business administration jointly established by Shanghai National Accounting Institute and University of Arizona in May 2009. He graduated from ShanghaiTech University with a bachelor’s degree in science in July 1989 and was granted the title of engineer in August 1999.

Mr. Zhang Jianhui, aged 47, is a vice president. Mr. Zhang joined the Company in March 1998, was appointed as vice president in July 2015 and chief financial officer in May 2014 and has

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served as general manager of the general office of financial planning of the Company since June 2015. Mr. Zhang has served as the director of Orient Securities Innovation Investment since November 2012, the supervisor of Shanghai ICY Capital Co., Ltd. since March 2010, the supervisor of Shanghai ICY New Energy Venture Capital Co., Ltd. since October 2010, the supervisor of Orient Ruide Investment Management since August 2014, the supervisor of China Securities Credit Investment Co., Ltd. since April 2015, the director of Orient Securities Capital Investment and Orient Finance Hong Kong since August 2015.

Mr. Zhang served as a clerk of Shanghai Pudong Development Bank from March 1994 to March 1998, the assistant to the general manager of the fund and financial management department of the Company from March 1998 to July 2003, the deputy general manager and general manager for Liaoning administrative department, the deputy general manager (supervising the relevant works) and general manager of the fund and financial management department of the Company from July 2003 to June 2015, the supervisor of Great Wall Fund Management Co. Ltd. from June 2005 to June 2008, and the supervisor of Orient Securities Capital Investment from March 2013 to August 2015.

Mr. Zhang graduated from Shanghai University of Finance and Economics with a master’s degree in economics in January 1994, and obtained a master’s degree in business administration jointly established by Shanghai National Accounting Institution and University of Arizona in May 2009. He graduated from the National University of Defense Technology with a bachelor’s degree in engineering in July 1991 and was granted the title of intermediate accountant in May 2006.

Mr. Du Weihua, aged 51, is a vice president. Mr. Du joined the Company in June 1998 and was appointed as vice president in August 2015. He has served as the general manager of the human resources management department since October 2009 and as a member of the commission for discipline inspection since December 2011. Mr. Du has served as a director of Orient Securities Capital Investment since September 2011 and as a director of Orient Securities Innovation Investment since November 2012.

Mr. Du was a teacher in the school of finance at Shanghai University of Finance and Economics from July 1984 to June 1998, and served as a branch manager, assistant to the general manager and deputy general manager of the brokerage business department, general manager of the operations and management department, and general manager of the human resources management department of the Company from June 1998 to January 2012. He further served as the assistant to the president, general manager of the human resources management department and employee Supervisor of the Company from January 2012 to August 2015.

Mr. Du graduated from Shanghai Jiao Tong University with an executive master’s degree in business administration for senior executives in December 2013. He obtained a master’s degree in economics from Shanghai University of Finance and Economics in January 1990 and a bachelor’s degree in economics from Shanghai University of Finance and Economics in July 1984. Mr. Du was examined and approved by Shanghai University of Finance and Economics for the qualification as an associate professor in June 1999.

Mr. Yang Bin, aged 43, is our chief risk officer and chief compliance officer. Mr. Yang joined the Company in May 2015 and was appointed as our chief risk officer in June 2015 and chief compliance officer in July 2015. Mr. Yang has served as a director of Orient Securities Futures since August 2015, a director of Orient Finance Hong Kong since August 2015, a director of Citi Orient

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since October 2015, as well as the chief compliance officer and chief risk officer of Orient Securities Asset Management since June 2015.

Mr. Yang served as the clerk of the non-banking financial institute administrative office of the People’s Bank of China Shanghai branch from July 1997 to July 1998, a deputy senior staff and senior staff of the inspection bureau and case proceedings of inspection bureau of the CSRC Shanghai Branch from July 1998 to March 2004, the senior staff of the No.1 inspection office and the No.2 institute supervision office of the CSRC Shanghai branch from March 2004 to February 2007, and the deputy director of the No.1 institute supervision office, futures regulatory office director, and legal affairs office director of the CSRC Shanghai branch from February 2007 to May 2015.

Mr. Yang graduated from Shanghai University of Finance and Economics with a master’s degree in economics in September 2003 and obtained a bachelor’s degree in law from East China University of Political Science and Law in July 1997. He obtained the qualification for senior executive approved by the CSRC in June 2015.

Save as disclosed above, none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business.

Save as disclosed above, none of our Directors, Supervisors and members of senior management is related to other Directors, Supervisors and members of the senior management.

Save as disclosed above, none of our Directors, Supervisors and members of senior management held any directorship in any public companies, the shares of which are listed in Hong Kong or overseas stock markets, during the three years prior to the date of this document.

JOINT COMPANY SECRETARIES

Mr. Yang Yucheng, our joint company secretary, is also a member of our senior management. See “—Senior Management” in this document for his biography.

Ms. Leung Wing Han Sharon (梁穎嫻), our joint company secretary, was appointed on March 11, 2016 with effect from the date of [REDACTED].

Ms. Leung is currently a vice president of SW Corporate Services Group Limited. She has been serving as the company secretary of Linekong Interactive Group Co., Ltd. (a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange, stock code: 8267) since June 30, 2015. Ms. Leung has over 10 years of experience in finance, accounting and company secretarial matters.

Ms. Leung holds a bachelor’s degree of business administration in accounting, a bachelor’s degree in law and a master’s degree in international corporate and financial law. She is a fellow member of the Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators in the United Kingdom, and the Association of Chartered Certified Accountants in the United Kingdom. She is also a member of the Hong Kong Institute of Certified Public Accountants.

BOARD COMMITTEES

The Board delegates certain responsibilities to various dedicated committees. In accordance with relevant PRC laws, regulations, the Articles and the Hong Kong Listing Rules, we have formed

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

four board committees, namely the Strategy Development Committee, the Compliance and Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee.

Strategy Development Committee

The Strategy Development Committee consists of five Directors, namely Mr. Wu Jianxiong (吳建雄), Mr. Pan Xinjun (潘鑫軍), Mr. Jin Wenzhong (金文忠), Mr. Chen Bichang (陳必昌) and Mr. Tao Xiuming (陶修明). Mr. Wu Jianxiong currently serves as the chairman of the committee. The main duties of the Strategy Development Committee include (but not limited to):

- studying and advising on the long term strategic development plans of the Company;
- studying and advising on the major investment and financing projects that are subject to approval by the Board;
- studying and advising on the major capital operations and asset management projects that are subject to approval by the Board;
- studying and advising on any other significant events that affect the Company;
- monitoring the implementation of the matters above; and
- other matters as authorized by the Board or as stipulated in the Articles of Association.

Compliance and Risk Management Committee

The Compliance and Risk Management Committee consists of five Directors, namely Mr. Pan Xinjun (潘鑫軍), Mr. Jin Wenzhong (金文忠), Mr. Li Xiang (李翔), Mr. Zhou Yao (周堯) and Mr. Li Zhiqiang (李志強). Mr. Pan Xinjun currently serves as the chairman of the committee. The main duties of the Compliance and Risk Management Committee include (but not limited to):

- reviewing and advising on the overall target and basic policy of compliance and risk management;
- reviewing and advising on the compliance and risk management system, the establishment and duties of the compliance and risk management department;
- reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements;
- evaluating and advising on the risks and risk management solutions relating to the significant matters that require approval by the Board;
- reviewing the scale of risk and risk tolerance of the Company as a whole; and evaluating the asset allocation system in place with reference to the tolerance of risk;
- monitoring and evaluating the risks associated with the Company’s operating activities, discussing the risk management system with the management, and ensuring that the management fulfills its responsibilities in establishing an effective risk management system;
- considering major investigation findings on risk management matters and management’s response to the findings as delegated by the board or on its own initiative;
- reviewing and advising on the compliance and risk assessment reports that require review by the Board;

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- developing and reviewing the Company’s policies and practices on corporate governance and making recommendations to the Board;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- developing, reviewing and monitoring the Company’s code of conduct and compliance manual (if any) applicable to employees and directors;
- reviewing the Company’s compliance with the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules and its disclosures in the Corporate Governance Report; and
- other matters as authorized by the Board or as stipulated in the Articles of Association.

Audit Committee

The Audit Committee consists of five Directors, namely Mr. Pan Fei (潘飛), Mr. Wu Junhao (吳俊豪), Mr. Xu Chao (徐潮), Mr. Xu Guoxiang (徐國祥) and Mr. Wei Anning (尉安寧). Mr. Pan Fei serves as the chairman of the committee. The main duties of the Audit Committee include (but not limited to):

- making recommendations to the Board on the appointment, re-appointment or removal of external auditor;
- approving the remuneration and engagement terms of the external auditor, and supervising their activities;
- reviewing and monitoring the external auditor’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- giving an opinion as to the true, accurate and complete nature of audited financial statements;
- monitoring the integrity of the Company’s financial statements and annual reports, and reviewing any significant findings reported in them;
- reviewing the Company’s financial controls and internal control;
- monitoring and evaluating the Company’s internal audit system and its implementation;
- discussing the internal control system with management and ensuring that management has performed its duty of having an effective internal control system in place;
- considering major investigation findings on internal control matters and management’s response to those findings, either on its own initiative or as delegated by the Board;
- coordinating between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company;
- reviewing the Group’s financial and accounting policies and practices;
- ensuring that the Board provides a timely response to the issues raised in the external auditor’s management letter;
- managing the Company’s connected transactions and day-to-day operations;
- reporting the matters above to the Board; and
- other matters as authorized by the Board or as stipulated in the Articles of Association.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of five Directors, namely Mr. Li Zhiqiang (李志強), Mr. Zhang Qian (張芊), Mr. Chen Bin (陳斌), Mr. Xu Guoxiang (徐國祥) and Mr. Wei Anning (尉安寧). Mr. Li Zhiqiang currently serves as the chairman of the committee. The main duties of the Remuneration and Nomination Committee include (but not limited to):

- evaluating the structure, size and composition (including skills, knowledge and experience) of the Board at least once a year and making recommendations on changes to the Board to align with the Company’s strategy;
- reviewing the selection criteria and procedures for Directors and senior management, identifying qualified individuals as candidates for Directors and senior management and reviewing their qualifications;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (in particular, the Chairman and the President);
- assessing the independence of independent non-executive Directors;
- evaluating the remuneration and performance of the Directors and senior management based on their scope of duty as well as the level of remuneration of comparable positions in other similar companies amongst other factors;
- reviewing and approving the management’s proposal on remuneration based on the corporate goals and objectives set by the Board;
- making recommendations to the Board on the remuneration package for each executive Director, non-executive Director and member of the senior management;
- considering the remuneration package, time commitment, scope of responsibility and other employment terms of similar companies;
- reviewing and approving the compensation due to executive Directors and senior management for any loss or termination of office or appointment, so as to ensure that such compensation is consistent with the contractual terms; if such compensation is not consistent with the contractual terms, ensuring that it is fair, reasonable and not excessive;
- reviewing and approving compensation arrangements relating to the dismissal or removal of directors for misconduct or the like, so as to ensure that such arrangements would be consistent with the contractual terms; if such compensation is not consistent with the contractual terms, ensuring that it is reasonable and appropriate;
- ensuring that no Director or his associate is involved in the determination of his remuneration;
- evaluating and making recommendations on the performance of duties by the Directors, Supervisors (non-supervisory employees) and the president;
- reviewing the remuneration and evaluation scheme for the president and other member of the senior management; and
- other matters as authorized by the Board or as stipulated in the Articles of Association.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management receive their remuneration in the form of salary and allowances, employer’s contribution to pension schemes, annual bonuses and independent directors’ fee.

For the three years ended December 31, 2013, 2014 and 2015, the total remuneration paid to our Directors amounted to RMB6.4 million, RMB7.9 million and RMB7.6 million, respectively.

For the three years ended December 31, 2013, 2014 and 2015, the total remuneration paid to our Supervisors amounted to RMB6.3 million, RMB7.1 million and RMB5.4 million, respectively.

For the three years ended December 31, 2013, 2014 and 2015, the total emoluments paid to the five highest paid individuals (including Directors) by our Group amounted to RMB28.7 million, RMB43.4 million and RMB88.4 million, respectively.

For the three years ended December 31, 2013, 2014 and 2015, no fees were paid by our Group to any of the Directors or the five highest paid individuals as an inducement to join us or as compensation for loss of office. Our non-executive Directors and Supervisors (excluding employee Supervisors) do not receive any remuneration from the Company. Save as disclosed above, none of the Directors or Supervisors waived their remuneration during the relevant period.

The remuneration of Directors, Supervisors and senior management is determined with reference to factors including the salaries paid by comparable companies, time commitment and responsibilities of the Directors, Supervisors and senior management, employment conditions of other positions in our Company and the desirability of performance-based remuneration.

None of the Directors, Supervisors and senior management holds any interest in the H Shares and A Shares as set in Part XV of the Securities and Futures Ordinance, as of the Latest Practicable Date. To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiry, save as disclosed herein, there was no additional matter with respect to the appointment of the Directors and Supervisors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2)(b) to (v) of the Hong Kong Listing Rules as of the Latest Practicable Date.

EMPLOYEES

As of the Latest Practicable Date, we had a total of 3,698 employees. The remuneration packages of our employees primarily consist of fixed salaries, performance-based bonuses and contributions to mandatory social security funds. As required by the relevant PRC regulations, we participate in various pension schemes for our employees, including basic pension schemes and corporate annuity schemes. See “Business—Employees” for the description of the mandatory pension schemes and social insurance contribution schemes we participate in. Performance-based bonuses are calculated and paid generally based on the relevant provisions of the Performance Management System of the Company and the implementation rules of each department for the assessment and distribution of performance-based bonuses. In 2013, 2014 and 2015, we incurred staff costs of RMB 1,105.5 million, RMB1,447.7 million and RMB3,826.7 million, respectively.

We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

We have agreed to appoint Anglo Chinese Corporate Finance, Limited as the compliance advisor upon [REDACTED] in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The material terms of the compliance advisor’s agreement are as follows:

- (a) Anglo Chinese Corporate Finance, Limited shall act as our compliance advisor for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the [REDACTED] and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED] or until the agreement is terminated, whichever is earlier;
- (b) the compliance advisor will provide us with certain services including proper guidance and advice regarding compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines;
- (c) the compliance advisor will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time and of any amendment or supplement to the applicable laws and guidelines; and
- (d) the compliance advisor will act as one of the key channels of communication of the Company with the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly control, or are entitled to exercise the control of, 5% or more of our A Shares:

Shareholders	Nature of Interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding (%)
Shenergy Group	Beneficial owner	A Shares	1,588,618,183	30.08%
Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司) . .	Beneficial owner	A Shares	295,784,854	5.60%
Wenhui Xinmin United Press Group (文匯新民聯合報業集團)	Beneficial owner	A Shares	265,828,211	5.03%

Immediately following the completion of the [REDACTED] (and assuming the [REDACTED] is not exercised), our share capital comprised of [REDACTED] A Shares and [REDACTED] H Shares (including H Shares converted from A Shares and transferred to NSSF), representing [REDACTED]% and [REDACTED]% of the total share capital of our Company, respectively.

So far as our Directors are aware, immediately following the completion of the [REDACTED] (and assuming the [REDACTED] is not exercised), the following persons will have an interest or a short position in our Shares or underlying Shares of our Company which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Shareholders	Nature of Interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding in the relevant class of Shares of our Company	Approximate percentage of shareholding in the total Shares of our Company
Shenergy Group	Beneficial owner	A Shares	[REDACTED]	[REDACTED]%	[REDACTED]%
Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司)	Beneficial owner	A Shares	[REDACTED]	[REDACTED]%	[REDACTED]%

For those who are directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a shareholders’ meeting of any other member of our Group, please see “Appendix VI—Statutory and General Information” to this document.

As of the Latest Practicable Date, we are not aware of any arrangement which may on a subsequent date result in a change of control of our Company.

SHARE CAPITAL

BEFORE THE [REDACTED]

As of the Latest Practicable Date, the registered capital of our Company was RMB5,281,742,921, comprising 5,281,742,921 A Shares of nominal value RMB1.00 each, which are all listed on the Shanghai Stock Exchange.

	Number of Shares	% of issued share capital
A Shares	5,281,742,921	100.00%

UPON COMPLETION OF THE [REDACTED]

Immediately following completion of the [REDACTED], assuming that the [REDACTED] is not exercised, the entire share capital of our Company would be as follows:

Description of Shares	Number of Shares	Approximate % of the enlarged issued share capital
A Shares	[REDACTED]	[REDACTED]%
H Shares converted from A Shares and transferred to NSSF ⁽¹⁾	[REDACTED]	[REDACTED]%
H Shares issued pursuant to the [REDACTED]	[REDACTED]	[REDACTED]%
Total	[REDACTED]	[REDACTED]%

Note:

- (1) The conversion of A Shares to H Shares and the transfer of H Shares to NSSF is pursuant to the relevant PRC rules regarding the transfer of state-owned shares in overseas capital markets. Please refer to the paragraph headed “Transfer of State-owned Shares to NSSF” below for details.

Immediately following completion of the [REDACTED] and assuming that the [REDACTED] is fully exercised, the entire share capital of our Company would be as follows:

Description of Shares	Number of Shares	Approximate % of the enlarged issued share capital
A Shares	[REDACTED]	[REDACTED]%
H Shares converted from A Shares and transferred to NSSF ⁽¹⁾	[REDACTED]	[REDACTED]%
H Shares issued pursuant to the [REDACTED]	[REDACTED]	[REDACTED]%
Total	[REDACTED]	[REDACTED]%

Note:

- (1) The conversion of A Shares to H Shares and the transfer of H Shares to NSSF is pursuant to the relevant PRC rules regarding the transfer of state-owned shares in overseas capital markets. Please refer to the section headed “Transfer of State-owned Shares to NSSF” below for details.

SHARE CLASSES

The H Shares and A Shares in issue upon completion of the [REDACTED] will be ordinary Shares in our share capital. Upon the launch of the pilot program of Shanghai-Hong Kong Stock Interconnection (“Shanghai-Hong Kong Stock Connect” or “Pilot Program”) for establishing mutual stock access between the PRC and Hong Kong on November 17, 2014, the A Shares of our Company are eligible securities approved to be traded between Hong Kong and overseas investors in a limited amount and pursuant to the rules and regulations as prescribed under the Pilot Program. A Shares can also be subscribed for by, and traded between, legal or natural persons of the PRC, QFIIs or qualified foreign strategic investors and must be traded in Renminbi. The H Shares of our Company will be

SHARE CAPITAL

eligible securities approved to be traded between, legal or natural persons of the PRC in a limited amount and pursuant to the rules and regulations as prescribed under the Pilot Program. H Shares can also be subscribed for by, or traded by QDIIs. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars whereas all dividends in respect of A Shares are to be paid by us in Renminbi.

In addition, A Shares and H Shares are regarded as different classes of Shares under our Articles of Association. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different branches of the register of Shareholders, the method of Share transfer and appointment of dividend receiving agents are set out in our Articles of Association and summarized in “Appendix V—Summary of Articles of Association” to this document. Further, any change or abrogation of the rights of class Shareholders should be approved by way of a special resolution of the Shareholders’ meeting of Shareholders and by a separate meeting of Shareholders convened by the affected class of Shareholders. See “Appendix V—Summary of Articles of Association” for the circumstances under which a Shareholders’ meeting and class meeting are required. However, the procedures for approval by separate class Shareholders shall not apply:

- (i) where the Company issues, upon the approval by a special resolution of the Shareholders’ meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued A Shares and H Shares;
- (ii) where the plan of the Company to issue A Shares and H Shares at the time of its establishment is carried out within 15 months from the date of approval of the securities regulatory authority under the State Council; or
- (iii) where the transfer of the A Shares held by the A Shareholders of the Company to foreign investors and the listing on overseas stock exchange are approved by the securities regulatory institution under the State Council. See “—Conversion of A Shares into H Shares for [REDACTED] and Trading on the Hong Kong Stock Exchange” for more details.

A Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made.

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different after the [REDACTED].

TRANSFER OF STATE-OWNED SHARES TO NSSF

In accordance with the relevant PRC rules regarding the transfer of state-owned shares in overseas capital markets, 12 state-owned Shareholders of our Company are required to transfer to NSSF such number of A Shares in aggregate equivalent to 10% of the total number of [REDACTED]. Accordingly, [REDACTED] A Shares before the exercise of the [REDACTED] or [REDACTED] A Shares after the full exercise of the [REDACTED] will be transferred by these 12 state-owned Shareholders (among which Shenergy Group, Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司) and Wenhui Xinmin United Press Group (文匯新民聯合報業集團) are the top three transferring Shareholders) to NSSF and converted into H Shares.

The A Shares as described above will be converted into H Shares on a one-for-one basis and such H Shares converted will not constitute part of the [REDACTED]. Neither our Company nor any of

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these 12 state-owned Shareholders will receive any [REDACTED] from the transfer of H Shares to NSSF or any subsequent disposal of such H Shares by NSSF. Shenergy Group, on behalf of these 12 state-owned Shareholders, has submitted an application to the SASAC regarding the transfer of the state-owned Shares and these 12 state-owned Shareholders have issued undertaking letters in relation to the reduction of state-owned Shares. On March 24, 2016, the SASAC approved all our 12 state-owned Shareholders to transfer state-owned Shares equivalent to 10% of the total number of H Shares to be issued to NSSF. Such conversion and holding of H Shares by NSSF in relation to the [REDACTED] has been approved by the CSRC in [●], 2016.

We have been advised by our PRC legal advisor, Grandall Law Firm, that the transfer of state-owned Shares has been approved by the relevant PRC authorities and is in compliance with the relevant PRC law.

CONVERSION OF A SHARES INTO H SHARES FOR [REDACTED] AND TRADING ON THE HONG KONG STOCK EXCHANGE

If any holder of our A Shares wishes to transfer its A Shares to overseas investors for [REDACTED] and trading on the Hong Kong Stock Exchange as H Shares, it must obtain the approval of the relevant PRC regulatory authorities, including the CSRC for the conversion of the A Shares and the approval of the Hong Kong Stock Exchange for the [REDACTED] and trading of the converted H Shares, as well as in compliance with the relevant methodology and procedures. To the Company’s best knowledge, such conversion may involve the following steps:

- (i) the holder of A Shares is to obtain the requisite approval of the CSRC or the authorized securities approval authorities of the PRC State Council for the conversion of all or part of its A Shares into H Shares;
- (ii) we may apply for the [REDACTED] of all or any portion of our A Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion and we must obtain prior approval from the Hong Kong Stock Exchange before the converted H Shares can be [REDACTED] and traded on the Hong Kong Stock Exchange;
- (iii) the holder of A Shares is to issue to us a removal request to remove a specified number of A Shares from the A Share register, accompanied with the relevant document(s) of title;
- (iv) subject to obtaining the approval of the Board and the Hong Kong Stock Exchange, we would then issue a notice to the [REDACTED] with instructions that, with effect from a specified date, our [REDACTED] is to issue to relevant holder H Share certificate(s) for such specified number of H Shares;
- (v) such specified number of A Shares to be converted into H Shares are then re-registered on the H Share register maintained in Hong Kong on the condition that:
 - (a) our [REDACTED] lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificate(s); and
 - (b) the admission of the H Shares (converted from A Shares) to trade in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time;

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- (vi) upon completion of the conversion, the shareholding of the relevant holder of A Shares in our A Share capital and registered on our A Share register will be reduced by such number of A Shares converted and the number of H Shares will correspondingly be increased by the same number of H Shares; and
- (vii) we will comply with the Hong Kong Listing Rules to inform our Shareholders and the public by way of an announcement of such fact before the proposed effective date.

Approvals from holders of A Shares and H Shares as separate classes are not required for the [REDACTED] and trading of the converted H Shares. As of the Latest Practicable Date, the Directors were not aware of any intention of any holder of A Shares to convert all or part of its A Shares into H Shares.

APPROVAL FROM HOLDERS OF A SHARES REGARDING THE [REDACTED]

Approval from holders of A Shares is required for our Company to issue H Shares and seek the [REDACTED] of H Shares on the Hong Kong Stock Exchange. Such approval was obtained by us at the Shareholders’ meeting of our Company held on September 22, 2015 and is subject to the following conditions:

[REDACTED]

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The following discussion and analysis should be read in conjunction with our consolidated financial statements together with the accompanying notes included in “Appendix I—Accountants’ Report.” Our consolidated financial statements included in the Accountants’ Report have been prepared in accordance with IFRS. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and “Forward-Looking Statements” and elsewhere in this document. While we are also listed on the Shanghai Stock Exchange and prepare and publish consolidated financial statements under PRC GAAP, owing to differences in accounting principles and the presentation of our business segments historically, our financial information and consolidated financial statements included in this document are not directly comparable to financial information and consolidated financial statements prepared under PRC GAAP. IFRS and PRC GAAP might differ in certain significant respects. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and PRC GAAP.

OVERVIEW

We are a leading and fast-growing capital markets service provider in China with distinguished investment expertise. We have built successful investment management and trading as well as wealth management businesses by leveraging our strong foundation in Shanghai and nationwide network. We primarily provide the following financial services to individual, institutional and corporate clients:

- *Wealth Management:* We engage in securities brokerage business and future brokerage business, provide various securities financing services, such as margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions, and distribute various financial products issued by financial institutions. We generate commission and fee income from securities brokerage business through trading stocks, bonds and funds on behalf of our clients and distribution of financial products issued by financial institutions. In addition, we generate commission and fee income from our futures brokerage business through trading futures on behalf of our clients. We also generate interest income from margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions;
- *Investment Management:* We provide asset management products and earn asset management fees and performance fees. In addition, our associate, China Universal, provides fund management services. We also manage private equity funds and earn net investment gains and management fees;
- *Securities Sales and Trading:* We invest in equity, fixed income and derivatives for our own account. We also engage in NEEQ market-making business, and alternative investments. We provide securities research and prime brokerage services to institutional clients.

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- *Investment Banking:* We provide investment banking services, including equity underwriting and sponsorship, debt underwriting, and financial advisory services. In return, we primarily earn underwriting, sponsors fees and financial advisory fee; and
- *Headquarters and Others:* Our headquarters and others businesses mainly include our headquarters’ treasury business and overseas business. The treasury business mainly includes the headquarters financing business and liquidity management, generating interest income and net investment gains. In addition, we conduct overseas businesses through our subsidiary Orient Finance Hong Kong. Orient Finance Hong Kong, through its subsidiaries holding licenses for dealing in securities, advising on securities, dealing in futures contract, asset management, advising on corporate finance and money lending, conducts businesses such as securities transactions, leveraged finance, equity and debt underwriting and asset management.

We have experienced rapid growth in our results of operations during the Track Record Period. Our total revenue and other income increased from RMB4,586.5 million in 2013 to RMB7,887.9 million in 2014 and further to RMB20,459.3 million in 2015. Our profit for the year increased from RMB982.3 million in 2013 to RMB2,358.7 million in 2014 and further to RMB7,374.2 million in 2015. Our net profit margin increased from 21.4% in 2013 to 29.9% in 2014 and further to 36.0% in 2015.

During the Track Record Period, our total revenue and profit for the year increased significantly mainly due to the following:

- In respect of wealth management, segment revenue increased from RMB1,637.8 million in 2013 to RMB2,970.5 million in 2014 and further to RMB7,813.7 million in 2015, while segment profit before income tax increased from RMB585.8 million in 2013 to RMB1,281.2 million in 2014 and further to RMB4,025.8 million in 2015. This was primarily due to a significant increase in the trading volume of the A share market in 2015, especially during the first half of 2015;
- In respect of investment management, segment revenue increased from RMB202.1 million in 2013 to RMB319.0 million in 2014 and further to RMB1,755.8 million in 2015, while segment profit before income tax slightly decreased from RMB139.9 million in 2013 to RMB133.6 million in 2014 and increase to RMB1,149.5 million in 2015. This was primarily driven by (i) the overall strong performance of our asset management schemes in 2015, which led to a significant increase in our performance fees and (ii) a significant expansion of our AUM and thus an increase in our asset management fees;
- In respect of securities sales and trading, segment revenue increased from RMB2,303.9 million in 2013 to RMB3,318.1 million in 2014 and further to RMB8,713.9 million in 2015, while segment profit before income tax increased from RMB1,097.7 million in 2013 to RMB2,048.9 million in 2014 and further to RMB7,608.0 million in 2015. This was primarily due to (i) an increase in our fixed income securities investment and the related increase in our net investment gains and (ii) an increase in our net investment gains from our equity securities investments due to the favorable performance in the first half of 2015, under which circumstances we captured the investment opportunities and actively managed our risks through risk control measures;

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- In respect of investment banking, segment revenue increased from RMB260.1 million in 2013 to RMB512.7 million in 2014 and further to RMB920.9 million in 2015. We recorded a segment loss before income tax of RMB18.8 million in 2013, and a profit before income tax of RMB136.3 million in 2014 which increased to RMB358.8 million in 2015. This was primarily due to a significant increase in financial advisory fee income in 2015 as a result of diversification of our financial advisory business and an increase in both the number and transaction volume of IPOs, secondary offerings and bonds underwritten by us; and
- In respect of headquarters and others, segment revenue increased from RMB244.8 million in 2013 to RMB865.6 million in 2014 and further to RMB1,424.7 million in 2015. Segment loss before income tax was RMB556.0 million, RMB577.1 million and RMB3,367.9 million, respectively in 2013, 2014 and 2015. This was primarily due to (i) an increase in staff costs and administrative expenses in line with our business expansion; and (ii) an increase in interest expenses incurred from the increase in financing instruments.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected and, we expect, will continue to affect our business, financial condition, results of operations and prospects.

Economic and Market Conditions

Our financial performance is highly dependent on the business environment in which our business operates. A favorable business environment is generally characterized by, among other factors, high GDP growth, liquid and efficient capital markets, moderate inflation, high investor confidence, stable geopolitical conditions and strong business earnings. Unfavorable or uncertain economic and market conditions can be characterized by declines in economic growth, business activities or investor confidence, market volatility and fluctuations, decrease in the availability of or increases in the cost of credit and capital, significant increases in inflation, interest rates, exchange rate volatility, or commodity prices, outbreaks of hostilities or other geopolitical instability, and natural disasters or pandemics, or a combination of these or other factors. Our businesses and profitability have been affected and will continue to be affected by market conditions in many ways:

- *Wealth Management.* Economic and market conditions may affect investor sentiment and trading and investment activities, and in turn affect our brokerage commission and fee income as well as interest income. Strong performance of the A share market may facilitate trading activities, as well as demands for securities financing services. Sudden declines and significant volatility in the A share market may substantially inhibit the development of the trading markets;
- *Investment Management.* Economic and market conditions may affect the performance of the assets or funds we manage as well as our AUM, which could in turn affect our asset management fees and our ability to receive performance fees. Economic and market conditions may also affect the valuation of companies and our ability to exit portfolio companies, whether through an IPO or trade sale, which in turn affect our private equity investment businesses;
- *Securities Sales and Trading.* We have net long trading positions in equity securities, fixed income securities and derivatives as part of our securities sales and trading business. As a

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substantial portion of these investing and trading positions is mark-to-market, changes in fair values directly impact our profitability and net assets position. We may not be able to entirely hedge such exposures;

- *Investment Banking.* Economic and market conditions may impact investor confidence and corporate finance activities, and affect the number, transaction volume, and timing required for completion of financing and M&A transactions, which may in turn affect the revenue and profitability of our investment banking business; and
- *Headquarters and Others.* Economic and market conditions may affect our financing costs and net investment gains from liquidity management.

Competition

The PRC securities industry is highly competitive and we face intense competition in all aspects of our business. We compete primarily with PRC securities firms, some of which offer a broader range of services, possess more financial resources, or have a larger client base. With the gradual deregulation of the PRC securities industry, more competitors, including other financial institutions and financial service providers, may seek to enter or expand in the securities market. Intense competition may also lead to higher demand for qualified personnel and increase our staff costs, making it more difficult to attract and retain our employees. We believe that the principal factors affecting our ability to compete involve price, range and quality of our products and services, transaction execution capabilities, experience, expertise and knowledge of our staff, and geographic coverage.

Competition may affect market prices for products and services we offer, especially the prices for standardized services like securities brokerage. In 2013, 2014 and 2015, the average stock and fund brokerage commission rate of our securities branches was 7.7 bps, 6.9 bps and 5.4 bps, respectively. Faced with intensified competition in the securities brokerage business in China and the resulting industry trend of decreasing commission rates, we have lowered our brokerage commission rate in order to remain competitive in the market place. In April 2015, CSDC switched from a “one-person-one-account” system to a “one-person-multiple-account” system, allowing each individual investor to open up to 20 securities accounts. After the transition, our clients may compare commission rates and service level among different securities firms and thus may switch accounts easily, which led to higher pressure on our revenue and service level. At the same time, with more competition in the industry, our investment management business and wealth management business face challenges from other financial institutions. We will continue to focus on the pricing of our products and services in relation to our competitors and optimize fee structures to enhance our competitiveness while maintaining our profitability. We also aim to continue to innovate and provide customized and value-added products and services for our clients.

Regulatory Environment

We are subject to extensive regulatory requirements and supervision. Since most of our businesses are currently carried out in China, the regulatory developments in China and economic and industry policy measures adopted by the PRC government may affect our business in many ways. In particular, we believe that our ability to expand our business and broaden the scope of our products and service offerings has been, and will continue to be materially affected by changes in the policies, laws and regulations governing the PRC securities industry, including the extent to which we can engage in

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certain businesses or adopt certain business models and fee structures. Regulatory changes may also affect our cost of capital and liquidity, and give rise to new challenges for our risk management and internal control.

The regulatory regime of the PRC securities industry has been evolving and the CSRC and other regulatory authorities are committed to reforming the PRC securities industry with a view towards improving capital market efficiency and broadening the scope of new products and services that securities firms can offer. For example, from 2008 to 2014, the CSRC launched several pilot programs, including private equity investment, stock index futures, margin financing and securities lending, collateralized stock repurchase, Shanghai-Hong Kong Stock Connect, and the NEEQ market-making services to expand the products and services offered by securities firms. The CSRC has been encouraging securities firms to diversify their product and service offerings and issued specific guidelines on product and service innovation. In addition, the PRC government has also taken various measures to improve the capital efficiency and diversify the funding sources of PRC securities firms, including lowering the risk capital reserve requirements for qualified securities firms, and allowing PRC securities firms to issue subordinated bonds to a broader range of investors, such as their shareholders and institutional investors and to issue structured products, such as structured notes. With the deregulation of the PRC securities industry, we expect more new competitors to enter the market, including the existing financial institutions expanding into securities and trading related businesses, resulting in further intensified competition.

The evolving regulatory environment presents both opportunities and risks. For example, the market rose rapidly from the second half of 2014 to June 2015 before dropping sharply since June 2015, intensifying market volatility. In response, the PRC government took regulatory measures to stabilize the market, which have an effect on market liquidity and A Share IPO. Adapting to such rapidly changing regulatory environment requires us to focus on, anticipate and prepare for future regulatory changes, to develop new products and services when they are allowed, and to optimize our capital structure and funding sources. We also need to maintain various capital adequacy, risk management and liquidity indicator requirements as our products and services become more complex and capital intensive. We expect that regulatory reforms will continue to affect the PRC securities industry and our business, financial condition and results of operations.

Business Segments and Revenue Mix

Our business segments and products and services have different profit margins and future growth prospects, and as a result, any material changes in our revenue mix, whether due to changes in our growth strategies, market conditions, client demand or other reasons, may affect our financial condition and results of operations. Our historical financial results were significantly affected by the revenue contribution and profit margin of our securities sales and trading business. As our products and services become more diverse, we seek to optimize our revenue mix by increasing the revenue contribution from our other business segments with more significant growth potential and less risks, such as wealth management and investment management businesses. In 2013, 2014 and 2015, revenue from securities sales and trading business accounted for 50.8%, 42.5% and 43.0% of our total revenue, respectively, while revenue from our wealth management businesses accounted for 36.0%, 38.0% and 38.6% of our total revenue, respectively, and revenue from our investment management business accounted for 4.5%, 4.1% and 8.7% of our total revenue, respectively. Our future results of operations and financial condition could be significantly affected by our ability to design, develop and introduce

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new products to market, to conduct business with new clients and counterparties, to manage new asset classes and to enter into new markets.

Performance of Our Securities Sales and Trading Business

In 2013, 2014 and 2015, revenue from our securities sales and trading business amounted to RMB2,303.9 million, RMB3,318.1 million and RMB8,713.9 million, respectively, representing 50.8%, 42.5% and 43.0% of our total revenue, respectively. We primarily trade equity securities and fixed income securities using our own account.

A substantial portion of the financial instruments held by us for our securities sales and trading business is marked to market, and their fair value is constantly affected by the overall market condition. A change in the interest rate could also impact our funding cost and thus our profit from securities sales and trading business. Driven by the recovery and growth of the A share market, revenue from our securities sales and trading business increased substantially from 2013 to June 2015. However, the A share market experienced a substantial decline and increased volatility since June 15, 2015, which led to losses of our securities sales and trading business in the third quarter of 2015 and to a certain extent offset our overall profitability in 2015. In the future, we expect that the performance of our securities sales and trading business will continue to be affected by the overall performance of the securities markets in China. Due to the limitations of derivative financial instruments in China, we may not be able to hedge all of our exposures to future market volatility in an effective and cost-efficient way.

The performance of our securities sales and trading business is also determined by our investment decisions and judgments based on our assessment of existing and future market conditions and the financing cost of our fixed income securities investment. We closely monitor the market value and financial performance of our securities sales and trading portfolio, and actively adjust such portfolio to allocate assets based on market conditions and internal risk management guidelines. However, our investment decisions are based on judgments, which involve management discretion and assumptions. Performance of our securities sales and trading business depends on our ability to capture gains while controlling losses, and our ability to capture investment opportunities while navigating regulatory constraints. Results of our securities sales and trading business may fluctuate in the future.

Interest Rates

Our business is also affected by changes in interest rates, which fluctuate continually and may be unpredictable and highly volatile. Interest rates in China are regulated by the PBOC. Since January 2013, PBOC has adjusted the lending rates many times, and the one-year RMB benchmark lending rate was lowered from 6.00% at the beginning of 2013 to 4.35% as of the Latest Practicable Date. Changes in interest rates affect our results of operations and financial condition in different ways:

- Changes in interest rates affect the value of our financial assets. An increase in interest rates could cause a corresponding decline in the market value of fixed income securities we invest in. Increasing interest rates could also affect the profitability of our derivative financial instruments and hedging strategies depending on the long-short positions we take;
- Changes in interest rates would also affect the interest income we would earn on interest-bearing assets. Our interest-bearing assets mainly include cash and bank balances, clearing settlement funds, financial assets held under resale agreements, deposits with exchanges

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and non-bank financial institutions and margin financing and securities lending we provide to our clients;

- Increases in interest rates, in particular interbank market rates, can significantly increase our funding cost, including, but not limited to, the financing cost of margin financing and securities lending and fixed income securities investments; and
- A rise in interest rates could lower our corporate clients’ ability or willingness to access the debt capital markets, which could lower the revenue generated by our debt underwriting business.

Exchange Rate

Although a majority of our revenue is derived from the PRC, we also provide securities products and services to overseas clients in Hong Kong. Our functional currency is RMB, while we also have a portion of revenue, expenses and borrowings denominated in Hong Kong dollars and US dollars. Therefore, fluctuations in exchange rates, especially those between RMB, Hong Kong dollars and US dollars, may affect our profitability and may also cause foreign exchange loss to our foreign currency-denominated assets and liabilities. Furthermore, dividends from our H Shares will be declared in RMB and paid in Hong Kong dollars. Therefore, holders of H Shares outside the PRC may be subject to risk from adverse fluctuations in the value of RMB against Hong Kong dollars, which may lead to a reduction of dividends on H shares paid by us. The exchange rate of RMB to the U.S. dollar is under a managed floating exchange rate system and has gradually risen over the past decade. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the mid-point price of RMB to the US dollar to make the exchange rate of RMB more market-based. As a result, the mid-point price of RMB against the US dollar depreciated by 4.78% from August 10 to August 27, 2015 and also experienced significant fluctuations in January 2016. We cannot predict how the RMB will fluctuate in the future. See “Risk Factors—Risks Relating to China—Future fluctuations in the exchange rate of Renminbi could have a material adverse effect on our financial condition and results of operations.”

BASIS OF PRESENTATION

Our financial statements have been prepared in accordance with IFRS and include applicable disclosure requirements of the Hong Kong Listing Rules and the Hong Kong Companies Ordinance. We prepared our 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. Our financial statements are presented in RMB, which is our functional currency.

The financial information contains our financial statements and financial statements of entities (including structured entities) controlled by us or our subsidiaries. Control is achieved where we have power over the investee, are exposed, or have rights, to variable returns from our involvement with the investee, and have the ability to use our power to affect our returns. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by our subsidiaries. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies, judgments and estimates significant to the preparation of our financial statements in accordance with IFRS. The Accountants’ Report in Appendix I to this document sets forth these significant accounting policies in note 3, which are important for an understanding of our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, judgments and estimates that are discussed in note 4 of the Accountants’ Report in Appendix I to this document. In the application of our accounting policies, our Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis.

Our management has identified the following accounting policies, estimates and judgments that they believe are critical to the preparation of our financial statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business. Revenue is recognized when it is probable that the economic benefits will flow to us and when revenue can be measured reliably, on the following basis:

- Commission income on brokerage business is recorded as income on a trade date basis, and service fees arising from brokerage business are recognized when services are rendered;
- Underwriting and sponsorship fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant actions have been completed;
- Interest income of a financial asset is recognized when it is probable that the economic benefits will flow to us and when the amount of revenue can be measured reliably. Interest income is accrued on a timely basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to the net carrying amount on initial recognition of the asset;
- Consultancy and financial advisory fee income is recognized when the relevant transactions have been arranged or the relevant services have been rendered;
- Asset and fund management fee income is recognized when management services are provided;
- Dividend income from investments is recognized when the shareholder’s right to receive payment has been established, provided that it is probable that the economic benefits will flow to us and the amount of revenue can be measured reliably; and
- Rental income from operating leases is recognized using straight-line method over the terms of such leases.

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Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, available-for-sale financial assets and held-to-maturity investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition:

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial assets forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of contract containing one or more embedded derivatives, and IAS39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial assets.

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Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets as at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity investments are recognized in profit or loss when the Group’s right to receive the dividends is established.

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

For available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation;
or
- the disappearance of an active market for that financial asset because of financial difficulties.

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For certain categories of financial assets, such as advances to clients, accounts receivable and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to clients, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When an advance to clients, an account receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial Liabilities at Fair Value Through Profit or Loss

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- on initial recognition it is part of a portfolio of identified financial instruments that we manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not a designated and effective hedging instrument.

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A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid and dividends paid.

Other Financial Liabilities

Other financial liabilities including borrowings, short-term financing bills payables, due to banks and other financial institutions, accounts payable to brokerage clients, other payables and accruals, bonds payable and financial assets sold under repurchase agreements are subsequently measured at amortized cost, using the effective interest method.

Derivative Financial Instruments and Embedded Derivatives

Derivatives are initially recognized at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics 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 recognized in profit or loss.

Repurchase Agreements and Resale Agreements

Financial assets sold subject to repurchase agreements, which do not result in derecognition of the financial assets, are continued to be recorded as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or “available-for-sale financial assets” as appropriate. The corresponding liability is included in “financial assets sold under repurchase agreements”. Consideration paid for financial assets held under agreements to resell are recorded as “financial assets held under resale agreements”. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Securities Lending

We lend securities to clients and the cash collateral balances required under the securities lending agreements and the interest arisen from the cash collateral are included in “accounts payable to

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brokerage clients”. For those securities held by the Group that are lent to clients, they are not derecognized and are continued to be recorded as available-for-sale financial assets.

Fair Value of Financial Instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatility, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatility and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

Impairment of Available-for-sale Financial Assets

The determination of whether an available-for-sale investment is impaired requires significant judgment. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgment is also required to determine whether historical performance remains representative of current and future economic conditions.

Fair Value of Available-for-sale Financial Assets with Restriction on Disposal

For available-for-sale financial assets which are subject to legally enforceable restriction that prevents the holders from disposing them within the specified period, the fair value of these securities are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of these instruments includes some assumptions not supported by observable market prices or rates.

Income Taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made. The realisation of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where it becomes probable that sufficient

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profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognized in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period.

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 sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor’s returns.

An investor’s initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g. a change in the investee’s returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed above or changes the overall relationship between a principal and an agent. At the end of each reporting period, the Group assesses the variable returns arising from other equities and uses plenty of judgments, in combination with historical exposure to variable returns, to determine the consolidation scope.

PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

Revenue

Our revenue primarily consists of commission and fee income, interest income and net investment gains.

Commission and Fee Income

Our commission and fee income mainly derives from our wealth management, investment management and investment banking businesses.

- *Wealth Management.* We generate commission and fee income from securities brokerage business by trading stocks, bonds and funds on behalf of our clients and distribution financial products issued by financial institutions. Commission and fee income from securities brokerage business mainly depends on the trading volume and the level of our commission and fee rates. Commission and fee income from securities brokerage business also includes those as a result of our securities financing business, which mainly depends on the scale and the level of commission and fee rates of our securities financing business. In addition, we generate commission and fee income in our futures brokerage business by trading futures on behalf of our clients.
- *Investment Management.* We generate asset management and performance fees from our investment management business by managing our clients’ assets and investment portfolios. Income from our investment management business is mainly affected by the size of our AUM and return earned for our clients.
- *Investment Banking.* We generate underwriting, sponsors and financial advisory fee income from our investment banking business by providing equity underwriting and sponsorship, debt underwriting as well as financial advisory services. Income from our

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equity underwriting and sponsorship and debt underwriting businesses is mainly driven by the transaction volume and commission rates. Income from our financial advisory services mainly depends on the complexity of the transactions, which affects our fees for individual transactions, as well as the number of financial advisory transactions completed in any given period.

In addition, a portion of our commission and fee income is derived from the consultancy fees from provision of various securities research services to institutional clients, and commission and fees received from conducting businesses such as equity and debt underwriting and asset management by Orient Finance Hong Kong through its wholly-owned subsidiaries.

Interest Income

Our interest income mainly derives from our securities financing business, bank balances, and other businesses.

- *Securities financing.* We generate interest income primarily from our securities financing business, including (i) margin financing and securities lending, and (ii) collateralized stock repurchase and repurchase agreement transactions. Interest income from our securities financing business depends on the principal amount of financing we extend to our clients and the interest rates agreed between clients and us.
- *Bank balances.* We receive interest income from banks for cash balance held on behalf of brokerage clients as well as our own cash balance. Cash balance held on behalf of brokerage clients are primarily affected by the overall level of trading activities of our securities and futures brokerage businesses.
- *Others.* Our other interest income primarily includes interest income from (i) our entrusted loan business and (ii) our offshore lending businesses.

Net Investment Gains

We hold various types of financial assets, including financial assets at fair value through profit or loss, available-for-sale investments and held-to-maturity investments. Our net investment gains include (i) realized gains or losses from disposal of the relevant financial assets, (ii) dividends and interest income from the relevant financial assets, and (iii) gains or losses from changes of fair value of our financial instruments at fair value through profit or loss, excluding third-party interests in our consolidated investment funds.

Other Income and Gains

Our other income and gains primarily include government grants, foreign exchange gains or losses, rental income from sublease, gains or losses on disposal of property, equipment and other intangible assets, and others. Some of these items, such as government grants and gains or losses on disposal of property, equipment and other intangible assets, may fluctuate from period to period and may not occur in the future.

Total Expenses

Our total expenses primarily include depreciation and amortization, staff costs, commission and fee expenses, interest expenses, other operating expenses, and provision for/(reversal of) impairment losses.

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Depreciation and Amortization

Our depreciation and amortization relates primarily to depreciation of our property and equipment and amortization of other intangible assets. Our depreciation and amortization are mainly affected by the size of our branches network.

Staff Costs

Our staff costs primarily include salaries, bonuses and allowances, and social welfare and contribution to annuity schemes paid to our management and other employees.

Commission and Fee Expenses

Our commission and fee expenses primarily include expenses incurred for our securities and futures brokerage business. Expenses incurred for our investment banking business also accounted for a small portion of our commission and fee expenses.

- *Securities and futures brokerage.* Our securities and futures brokerage expenses primarily include securities dealing expenses charged by the stock exchanges and other authorized institutions for using their transaction and settlement systems as well as commissions paid to our securities and futures brokerage agents by us.
- *Investment banking.* Our underwriting, sponsors and advisory fee expenses primarily include commission expenses paid to other financial institutions for distributing the securities that we underwrite.

Interest Expenses

Our interest expenses primarily include interest expenses on (i) accounts payable to brokerage clients, (ii) financial assets sold under repurchase agreements, and (iii) our other financing instruments.

- *Accounts payable to brokerage clients.* While we earn interest income on deposits we hold on behalf of our clients, we also pay interest expenses on such deposits to our clients with reference to prevailing benchmark interest rates announced by the PBOC.
- *Financial assets sold under repurchase agreements.* In order to manage our liquidity, we enter into short-term and long-term repurchase agreements with counterparties, such as banks and other financial institutions, under which we incur interest expenses by selling our financial assets, such as bonds, notes and margin loans receivable, to the counterparty and agreeing to repurchase such assets at a predetermined price on the maturity date of the repurchase agreement.
- *Financing instruments.* We finance our operation by various financing instruments, including short-term financing bills, corporate bonds, subordinated bonds, and pay interests on such debt instruments.

Other Operating Expenses

Our other operating expenses mainly include general and administrative expenses, business taxes and surcharges, rental expenses, asset management scheme distribution expenses, communication expenses, securities and futures investor protection funds and auditor’s remuneration. These expenses depend on the size of our business and may increase in line with the expansion of our business scale.

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Provision for/(Reversal of) Impairment Losses

Our provision for/(reversal of) impairment losses include provision for/(reversal of) impairment losses recognized for our available-for-sale financial assets, and account receivables and other receivables.

Share of Results of Associates

Our share of results of associates mainly include our share of the results of China Universal during the Track Record Period.

Income Tax Expense

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which we are domiciled and operate. During the Track Record Period, the Company and all of our PRC subsidiaries were subject to an EIT rate of 25.0% in accordance with the EIT law. We enjoy certain beneficial tax treatment, including reduced or no enterprise income tax rates on dividend income from our equity investments, distributions from securities investment funds, and interest income from PRC government debt, local government bonds and railway bonds. Hong Kong profit tax has been calculated at the rate of 16.5% on the estimated assessable profits during the Track Record Period. Our effective income tax rate was 13.4%, 19.6% and 22.4% for 2013, 2014 and 2015, respectively. As of the Latest Practicable Date and during the Track Record Period, we fulfilled all our tax obligations and did not have any unresolved tax disputes.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Revenue			
Commission and fee income	1,783.8	2,459.9	6,621.0
Interest income	606.5	1,446.2	4,289.7
Net investment gains	2,149.3	3,906.3	9,341.9
Total revenue	4,539.6	7,812.4	20,252.6
Other income and gains	46.9	75.5	206.7
Total revenue and other income	4,586.5	7,887.9	20,459.3
Depreciation and amortization	(152.4)	(148.6)	(149.8)
Staff costs	(1,105.5)	(1,447.7)	(3,826.7)
Commission and fee expenses	(163.6)	(260.4)	(791.0)
Interest expenses	(1,261.0)	(2,209.8)	(4,548.5)
Other operating expenses	(821.7)	(1,018.8)	(2,080.9)
(Provision for)/ reversal of impairment losses	(71.8)	(5.0)	0.4
Total expenses	(3,576.0)	(5,090.3)	(11,396.5)
Share of results of associates	123.7	136.1	436.3
Profit before income tax	1,134.2	2,933.7	9,499.1
Income tax expense	(151.9)	(575.0)	(2,124.9)
Profit for the year	982.3	2,358.7	7,374.2

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The following discussion is a comparative analysis of the major components of our operating results for 2013, 2014 and 2015.

Revenue

The following table sets forth a breakdown of our revenue for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Commission and fee income	1,783.8	2,459.9	6,621.0
Interest income	606.5	1,446.2	4,289.7
Net investment gains	2,149.3	3,906.3	9,341.9
Total revenue	4,539.6	7,812.4	20,252.6

Our total revenue increased by 72.1% from RMB4,539.6 million in 2013 to RMB7,812.4 million in 2014, and further increased by 159.2% to RMB20,252.6 million in 2015. This reflected increases from all of our revenue sources during the Track Record Period.

Commission and Fee Income

The following table sets forth a breakdown of our commission and fee income for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Commission on securities dealing, broking and handling fee income	1,181.7	1,544.5	4,069.8
Commission on futures and options contracts dealing, broking and handling fee income	130.1	125.8	181.8
Asset management fee income	214.4	281.7	1,396.0
Underwriting, sponsors and financial advisory fee income	229.0	460.4	899.5
Consultancy fee income	28.6	47.5	73.9
Total	1,783.8	2,459.9	6,621.0

Comparisons between 2015 and 2014

Our commission and fee income increased by 169.2% from RMB2,459.9 million in 2014 to RMB6,621.0 million in 2015. This was primarily a result of:

- *Commission on securities dealing, broking and handling fee income.* Commission on securities dealing, broking and handling fee income increased by 163.5% from RMB1,544.5 million in 2014 to RMB4,069.8 million in 2015, primarily due to the significant growth of the trading volume in our securities brokerage business. Our trading volume of stocks and funds on behalf of our clients increased significantly from RMB2,014.8 billion in 2014 to RMB6,511.4 billion in 2015 as a result of a surge in trading activities in the A share market in 2015, especially during the first half of 2015. This was partially offset by a decrease in our average stock and fund brokerage commission rate of securities branches from 6.9 bps in 2014 to 5.4 bps in 2015, as we continued to provide a market competitive commission rate for the basic brokerage

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services offered to our clients. In addition, the trading volume of our margin financing and securities lending accounts also increased significantly as confidence of the market improved and total volume of securities financing business increased. This was partially affected by the decrease in the trading volume of A share market for the second half of 2015, resulting in a slowed increase in our commission and fee income on securities brokerage;

- *Commission on futures and options contracts dealing, broking and handling fee income.* Commission on futures and options contracts dealing, broking and handling fee income also increased from RMB125.8 million in 2014 to RMB181.8 million in 2015, primarily due to a significant year-on-year increase in transaction volumes of futures after the launch of two major futures contracts, “SSE 50 Index Futures” and “CSI 500 Index Futures”. However, as various restrictive policies on capital markets came into effect starting from the third quarter of 2015, the market condition changed significantly, which resulted in a significant decrease in the trading volume of financial futures transactions and decline in our income;
- *Asset management fee income.* Our asset management fee income increased by 395.6% from RMB281.7 million in 2014 to RMB1,396.0 million in 2015. This was primarily due to the strong performance of the A share market in the first half of 2015, resulting in the strong performance of our asset management schemes, and hence a significant increase in our performance fees received in 2015. The increase of our asset management fee income was also due to the increase of our asset management fees, which was a result of the increased AUM. The AUM of our asset management schemes and funds grew by 141.9% from RMB44,593.9 million in 2014 to RMB107,870.5 million in 2015;
- *Underwriting, sponsors and financial advisory fee income.* Our underwriting, sponsors and financial advisory fee income increased by 95.4% from RMB460.4 million in 2014 to RMB899.5 million in 2015 primarily due to the diversification of our financial advisory business, large-sized M&A and restructuring transactions undertaken by us in 2015, and more NEEQ securities recommendation and listing businesses provided by us, all of which resulted in a higher financial advisory fees. In addition, there was also significant increases in our debt underwriting fees as well as underwriting and sponsors fees received in connection with IPOs and secondary offering transactions; and
- *Consultancy fee income.* our consultancy fee income increased by 55.6% from RMB47.5 million in 2014 to RMB73.9 million in 2015.

Comparisons between 2014 and 2013

Our commission and fee income increased by 37.9% from RMB1,783.8 million in 2013 to RMB2,459.9 million in 2014. This was primarily due to:

- *Commission on securities dealing, broking and handling fee income.* Commission on securities dealing, broking and handling fee income increased by 30.7% from RMB1,181.7 million in 2013 to RMB1,544.5 million in 2014, primarily due to the growth of our securities brokerage business as a result of the expansion of our margin financing and securities lending business. As the overall trading volume of stocks and funds increased due to the improvement in the A share market, our trading volume of stocks and funds on behalf of our clients increased from RMB1,393.5 billion in 2013 to RMB2,014.8

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billion in 2014 as a result of an increase in trading activities in the A share market since the second half of 2014. This was partially offset by a decrease in our average stock and fund brokerage commission rate of securities branches from 7.7bps in 2013 to 6.9 bps in 2014 due to the increased competition in the market for the brokerage clients;

- *Commission on futures and options contracts dealing, broking and handling fee income.* Commission on futures and options contracts dealing, broking and handling fee income decreased slightly by 3.3% to RMB125.8 million in 2014 from RMB130.1 million in 2013 primarily due to a decrease of our average commission rates from 0.11 bps in 2013 to 0.06 bps in 2014, which was partially offset by an increase in the volume of our futures brokerage transaction in 2014;
- *Asset management fee income.* Our asset management fee income increased by 31.4% from RMB214.4 million in 2013 to RMB281.7 million in 2014 primarily due to the improvement in the A share market starting from the second half of 2014, which led to an overall stronger performance of our asset management schemes. This in turn led to an increase in our performance fees received. The AUM of our asset management schemes and funds also grew slightly from RMB40,243.8 million as of December 31, 2013 to RMB44,593.9 million as of December 31, 2014, resulting in a higher asset management fees received by us in 2014 compared with 2013;
- *Underwriting, sponsors and financial advisory fee income.* Our underwriting, sponsors and financial advisory fee income increased by 101.0% from RMB229.0 million in 2013 to RMB460.4 million in 2014 primarily due to a significant increase in the number and transaction volume of equities and bonds offerings underwritten by us. The growth of our IPOs underwriting and sponsorship business was mainly attributable to the resumption of A share IPOs approval process by the CSRC in 2014. The increase in the number of M&A and restructuring transactions and the increase in the number of NEEQ securities recommendation and listing transactions led to a higher amount of financial advisory fees; and
- *Consultancy fee income.* Our consultancy fee income increased by 66.1% from RMB28.6 million in 2013 to RMB47.5 million in 2014.

Interest Income

The following table sets forth a breakdown of our interest income for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Interest income from advances to customers and securities lending	193.6	395.7	1,429.7
Interest income from financial assets held under resale agreements	89.0	634.3	1,715.6
Interest income from deposits with exchanges and non-bank financial institutions and bank balances	323.4	407.7	1,053.2
Others	0.5	8.5	91.2
Total	606.5	1,446.2	4,289.7

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Comparisons between 2015 and 2014

Our interest income increased by 196.6% from RMB1,446.2 million in 2014 to RMB4,289.7 million in 2015. This was primarily as a result of the substantial growth of our securities financing business and the increase of cash balance with financial institutions.

- *Interest income from advances to customers and securities lending.* Interest income from advances to customers and securities lending increased by 261.3% from RMB395.7 million in 2014 to RMB1,429.7 million in 2015, primarily due to the upward trend of the overall A share market in 2015, especially the first half of 2015. The balance of margin financing and securities lending increased from RMB9,777.0 million in 2014 to RMB13,571.0 million in 2015;
- *Interest income from financial assets held under resale agreements.* Interest income from financial assets held under resale agreements increased by 170.5% from RMB634.3 million in 2014 to RMB1,715.6 million in 2015, primarily due to a substantial increase of our collateralized stock repurchase business in 2015 as we continued to focus on developing such business. The balance of our collateralized stock repurchase business increased from RMB12,117.6 million in 2014 to RMB24,100.3 million in 2015;
- *Interest income from deposits with exchanges and non-bank financial institutions and bank balances.* Interest income from deposits with exchanges and non-bank financial institutions and bank balances increased by 158.3% from RMB407.7 million in 2014 to RMB1,053.2 million in 2015, primarily due to an increase in our cash balance held on behalf of brokerage clients as a result of favorable market conditions and more active trading activities in the first half of 2015, as well as an increase in our own cash balance as a result of our successful IPO on the A share market in March 2015 and increased external financing; and
- *Others:* Other interest income increased significantly from RMB8.5 million in 2014 to RMB91.2 million in 2015 primarily due to the significant increase of other interest income from the lending business carried out by Orient Finance Hong Kong since 2015, as well as the interest income from entrusted loans carried out by Orient Securities Capital Investment since 2015.

Comparisons between 2014 and 2013

Our interest income increased by 138.5% from RMB606.5 million in 2013 to RMB1,446.2 million in 2014. This was primarily as a result of the substantial growth of our securities financing business and the increase of cash balance with financial institutions.

- *Interest income from advances to customers and securities lending.* Interest income from advances to customers and securities lending increased by 104.4% from RMB193.6 million in 2013 to RMB395.7 million in 2014, primarily due to the substantial growth of the overall A share market in 2014. The balance of our margin financing and securities lending increased significantly from RMB2,801.4 million as of December 31, 2013 to RMB9,777.0 million as of December 31, 2014;
- *Interest income from financial assets held under resale agreements.* Interests from financial assets held under resale agreements increased significantly by 612.7% from

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RMB89.0 million in 2013 to RMB634.3 million in 2014, primarily due to a substantial increase of our collateralized stock repurchase business that we launched in the second half of 2013. The balance of our collateralized stock repurchase business increased significantly from RMB2,073.0 million as of December 31, 2013 to RMB12,117.6 million as of December 31, 2014;

- *Interest income from deposits with exchanges and non-bank financial institutions and bank balances.* Interest income from deposits with exchanges and non-bank financial institutions and bank balances increased by 26.1% from RMB323.4 million in 2013 to RMB407.7 million in 2014, primarily due to an increase in our cash balance held on behalf of brokerage clients as a result of favorable market conditions and more active trading activities in 2014 and to a certain extent, an increase in our own cash balance as a result of increased financing activities; and
- *Others:* We launched entrusted loan business as part of our alternative investment business in 2014, which generated an interest income of RMB7.5 million, resulting in a significant increase in other interest income to RMB8.5 million in 2014 from RMB0.5 million 2013.

Net Investment Gains

The following table sets forth a breakdown of our net investment gains for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Net realised gains from disposal of available-for-sale financial assets	282.8	876.4	3,186.2
Dividend income and interest income from available-for-sale financial assets	1,473.8	1,889.7	2,166.5
Net realised (losses)/gains arising from disposal of financial assets at fair value through profit or loss	(258.4)	404.0	2,023.8
Dividend income and interest income from financial assets at fair value through profit or loss	533.4	551.7	1,618.0
Net realised gains arising from financial liabilities at fair value through profit or loss	0.4	0.1	1.5
Interest income from held-to-maturity investments	67.4	69.9	66.3
Net realised gains/(losses) arising from derivative financial instruments	192.1	(135.2)	(4.2)
Unrealised fair value change of financial assets at fair value through profit or loss	(150.4)	309.3	454.4
Unrealised fair value change of financial liabilities at fair value through profit or loss	(79.4)	(80.6)	9.8
Unrealised fair value change of derivative financial instruments	87.6	15.6	(193.4)
Others	—	5.4	13.0
Total	2,149.3	3,906.3	9,341.9

Comparisons between 2015 and 2014

Our net investment gains increased by 139.1% from RMB3,906.3 million in 2014 to RMB9,341.9 million in 2015. This was primarily a result of favorable performance of PRC securities market during the first half of 2015 that significantly increased our net investment gains.

- Our net realised gains from disposal of available-for-sale financial assets increased by 263.6% from RMB876.4 million in 2014 to RMB3,186.2 million in 2015. Due to the

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favorable performance of A share market during first half of 2015, we had increased net investment gains from equity securities investments and trading as well as fixed income securities that we invested for liquidity management;

- Our dividend income and interest income from available-for-sale financial assets increased by 14.6% from RMB1,889.7 million in 2014 to RMB2,166.5 million in 2015, primarily due to an increase in the size of stock and bond investments;
- Our net realised gains arising from disposal of financial assets at fair value through profit or loss increased by 400.9% from RMB404.0 million in 2014 to RMB2,023.8 million in 2015, primarily due to net investment gains from disposal of equity securities in 2015 as a result of the favorable performance of PRC securities market during the first half of 2015;
- Our dividend income and interest income from financial assets at fair value through profit or loss increased by 193.3% from RMB551.7 million in 2014 to RMB1,618.0 million in 2015, primarily due to an increase in the size of stock and bond investments;
- We had a net realised loss arising from derivative financial instruments of RMB4.2 million in 2015, in which the loss had decreased significantly compared to a net realised losses of RMB135.2 million in 2014. This was mainly due to that the stock index future products used for arbitrage recorded net investment gains while the corresponding market value of the stocks decreased; and
- We had an unrealised fair value change of financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments of RMB270.8 million in 2015, compared to an unrealized fair value change of RMB244.3 million in 2014. This was mainly because of the increase in the fair value of our financial assets at fair value through profit or loss.

Comparisons between 2014 and 2013

Our net investment gains increased by 81.7% from RMB2,149.3 million in 2013 to RMB3,906.3 million in 2014. This was primarily a result of favorable performance of China securities market that significantly increased our net investment gains in 2014.

- Our net realised gains from disposal of available-for-sale financial assets increased by 209.9% from RMB282.8 million in 2013 to RMB876.4 million in 2014, primarily due to an increase in net investment gains from equity securities investment and trading and financial products that we invested for liquidity management;
- Our dividend income and interest income from available-for-sale financial assets increased by 28.2% from RMB1,473.8 million in 2013 to RMB1,889.7 million in 2014, primarily due to an increase in size of our bond investments;
- We had a net realised loss arising from disposal of financial assets at fair value through profit or loss of RMB258.4 million in 2013, compared to a net realised gain of RMB404.0 million in 2014, primarily due to net investment gains from disposal of equity securities in 2014 as a result of the favorable performance of the A share market;
- Our dividend income and interest income from financial assets at fair value through profit or loss increased by 3.4% from RMB533.4 million in 2013 to RMB551.7 million in 2014, primarily due to an increase in the size of our stock investments;

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- We had a net realised loss arising from derivative financial instruments of RMB135.2 million in 2014, compared to a net realised gains of RMB192.1 million in 2013. This was mainly due to that the stock index futures products used for arbitrage recorded investment loss while the corresponding market value of the stocks increased; and
- We had an unrealised fair value change of financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments of RMB244.3 million in 2014, compared to an unrealized fair value change of RMB142.2 million in 2013. This was due to the significant increase in the fair value of our financial assets at fair value through profit or loss as a result of the favorable performance of the A share market.

Other Income and Gains

Comparisons between 2015 and 2014

Our other income and gains increased by 173.8% from RMB75.5 million in 2014 to RMB206.7 million in 2015, primarily due to (i) the receipt of an government grants of RMB103.3 million in 2015 as we enjoy supportive policies due to our status as a Shanghai municipal financial enterprise as well as our strong performance in operating results, tax contribution and innovative operation, and (ii) an increase of RMB65.5 million in foreign exchange gains resulting from the appreciation of the US dollar and Hong Kong dollar against RMB.

Comparisons between 2014 and 2013

Our other income and gains increased by 61.0% from RMB46.9 million in 2013 to RMB75.5 million in 2014, primarily due to (i) foreign exchange gains of 4.1 million in 2014 compared with foreign exchange losses of 6.4 million in 2013, (ii) an increase of RMB6.3 million in government grants in 2014 as the government extended its supportive policy, and (iii) gains on disposals of property and equipment in 2014.

Total Expenses

The following table summarizes our total expenses for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Depreciation and amortization	152.4	148.6	149.8
Staff costs	1,105.5	1,447.7	3,826.7
Commission and fee expenses	163.6	260.4	791.0
Interest expenses	1,261.0	2,209.8	4,548.5
Other operating expenses	821.7	1,018.8	2,080.9
Provision for/(reversal of) impairment losses	71.8	5.0	(0.4)
Total expenses	3,576.0	5,090.3	11,396.5

Comparisons between 2015 and 2014

Our total expenses increased by 123.9% from RMB5,090.3 million in 2014 to RMB11,396.5 million in 2015, primarily due to increases in our staff costs, interest expenses, commission and fee expenses, and other operating expenses, reflecting our business growth in 2015.

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Comparisons between 2014 and 2013

Our total expenses increased by 42.3% to RMB5,090.3 million in 2014 from RMB3,576.0 million in 2013, primarily due to increases in our staff costs, interest expenses, commission and fee expenses, and other operating expenses, reflecting our business growth in 2014.

Depreciation and Amortization

Comparisons between 2015 and 2014

Our depreciation and amortization remained stable at RMB149.8 million in 2015 as compared to RMB148.6 million in 2014, primarily due to the opening of capital-light branches that require less fixed assets investments.

Comparisons between 2014 and 2013

Our depreciation and amortization decreased from RMB152.4 million in 2013 to RMB148.6 million in 2014, mainly because certain existing fixed assets reached their useful lives before 2014.

Staff Costs

Comparisons between 2015 and 2014

Our staff costs increased by 164.3% from RMB1,447.7 million in 2014 to RMB3,826.7 million in 2015, primarily due to the increased number of staff and an increase in staff salaries to maintain the competitiveness of our remunerations to incentivize our staff.

Comparisons between 2014 and 2013

Our staff costs increased by 31.0% from RMB1,105.5 million in 2013 to RMB1,447.7 million in 2014, primarily due to the increased number of staff and an increase in our salaries to maintain the competitiveness of our remunerations and to incentivize our staff.

Commission and Fee Expenses

Comparisons between 2015 and 2014

Our commission and fee expenses increased by 203.8% from RMB260.4 million in 2014 to RMB791.0 million in 2015, primarily due to a substantial increase in our expenses for the brokerage business, which was in line with the increase in our brokerage trading volume for 2015.

Comparisons between 2014 and 2013

Our commission and fee expenses increased by 59.2% from RMB163.6 million in 2013 to RMB260.4 million in 2014, primarily due to an increase in our expenses for the brokerage business, which reflected the increase in our brokerage trading volume for 2014.

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Interest Expenses

The following table summarizes our interest expenses for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Accounts payable to brokerage clients	35.7	37.5	116.7
Financial assets sold under repurchase agreements	898.6	1,298.0	2,109.5
Borrowings	—	15.0	15.5
Due to banks and other financial institutions	172.5	252.5	398.2
Short-term financing bills payables	103.0	224.0	183.9
Bonds payables	51.1	379.6	1,696.4
Others	0.1	3.2	28.3
Total	1,261.0	2,209.8	4,548.5

Comparisons between 2015 and 2014

Our interest expenses increased by 105.8% from RMB2,209.8 million in 2014 to RMB4,548.5 million in 2015, primarily due to (i) an increase in the interest on financial assets sold under repurchase agreements, of which the balance increased substantially from RMB37,106.2 million as of December 31, 2014 to RMB47,880.1 million as of December 31, 2015; (ii) an increase in the interest expenses on bonds payables for 2015 as we issued multiple corporate bonds and offshore bonds in the second half of 2014 and 2015 to finance our working capital for business expansion; (iii) an increase in interest expenses from the increased balance due to banks and other financial institutions in 2015; and (iv) an increase in interest expenses on accounts payable to brokerage clients.

Comparisons between 2014 and 2013

Our interest expenses increased by 75.2% to RMB2,209.8 million in 2014 from RMB1,261.0 million in 2013, primarily due to (i) an increase in the interest on financial assets sold under repurchase agreements, of which the balance increased substantially from RMB21,214.3 million as of December 31, 2013 to RMB37,106.2 million as of December 31, 2014; (ii) an increase in interest expenses on our corporate and subordinated bonds, as we issued corporate bond, offshore bond and subordinated bond in 2014 to finance our working capital for business expansion; and (iii) an increase in interest expenses arising from the increased balance due to banks and other financial institutions.

Other Operating Expenses

Comparisons between 2015 and 2014

Our other operating expenses increased by 104.3% from RMB1,018.8 million in 2014 to RMB2,080.9 million in 2015, primarily due to increases in various expenses including business taxes and surcharges.

Comparisons between 2014 and 2013

Our other operating expenses increased by 24.0% from RMB821.7 million in 2013 to RMB1,018.8 million in 2014, primarily due to increases in various expenses including business taxes and surcharges.

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Provision for/(Reversal of) Impairment Losses

Comparisons between 2015 and 2014

We had reversal of impairment losses of RMB0.4 million in 2015, as compared to provision for impairment losses of RMB5.0 million in 2014, primarily due to the reversal in 2015 of impairment losses separately provided for the previous years.

Comparisons between 2014 and 2013

Our provision for impairment losses decreased significantly from RMB71.8 million in 2013 to RMB5.0 million in 2014, primarily because we made additional provisions for two available-for-sale financial assets in 2013.

Share of Results of Associates

Comparisons between 2015 and 2014

Our share of results of associates increased by 220.6% from RMB136.1 million in 2014 to RMB436.3 million in 2015, primarily due to an increase in asset management fees as a result of the increased AUM of the funds managed by our associate, China Universal, in 2015.

Comparisons between 2014 and 2013

Our share of results of associates increased by 10.0% to RMB136.1 million in 2014 from RMB123.7 million in 2013 mainly reflecting an improved operating performance of our associate, China Universal, in 2014.

Profit Before Income Tax

Comparisons between 2015 and 2014

Based on the reasons above, our profit before income tax increased by 223.8% from RMB2,933.7 million in 2014 to RMB9,499.1 million in 2015.

Comparisons between 2014 and 2013

Based on the reasons above, our profit before income tax increased by 158.7% from RMB1,134.2 million in 2013 to RMB2,933.7 million in 2014.

Income Tax Expense

Comparisons between 2015 and 2014

Due to increase in taxable income, our income tax expense increased by 269.5% from RMB575.0 million in 2014 to RMB2,124.9 million in 2015. Our effective tax rate was 19.6% and 22.4% in 2014 and 2015, respectively. The increase of our effective tax rate was mainly due to the reduced proportion of tax-free income which primarily includes the interests on treasury bonds and the dividend received as our profit before income tax grew during the year.

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Comparisons between 2014 and 2013

Due to increases in taxable income, our income tax expense increased by 278.5% from RMB151.9 million in 2013 to RMB575.0 million in 2014. Our effective tax rate was 13.4% and 19.6% in 2013 and 2014, respectively. The increase of our effective tax rate was mainly due to the reduced proportion of tax-free income which primarily includes the interests on treasury bonds and the dividend received as our profit before income tax grew during the year.

Profit for the Period and Net Margin

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

	Year ended December 31,		
	2013	2014	2015
(RMB in millions, except percentage)			
Operating profit ⁽¹⁾	1,010.5	2,797.6	9,062.8
Operating margin ⁽²⁾	22.0%	35.5%	44.3%
Adjusted operating margin ⁽³⁾⁽⁸⁾	32.0%	51.6%	59.9%
Profit for the year	982.3	2,358.7	7,374.2
Net margin ⁽⁴⁾	21.4%	29.9%	36.0%
Adjusted net margin ⁽⁵⁾⁽⁸⁾	31.1%	43.5%	48.8%
Return on average shareholders' equity ⁽⁶⁾	6.6%	13.8%	27.5%
Return on average total assets ⁽⁷⁾	1.8%	2.8%	4.7%

(1) Represents the difference between total revenue and other income and total expenses.

(2) Calculated by dividing operating profit by total revenue and other income.

(3) Calculated by dividing operating profit by the total revenue and other income net of commission and fee expenses and interest expenses.

(4) Calculated by dividing profit for the year by total revenue and other income.

(5) Calculated by dividing profit for the year by the total revenue and other income net of commission and fee expenses and interest expenses.

(6) Calculated by dividing profit attributable to the shareholders of the Company for the year by the average balance of the equity attributable to the shareholders of the Company at the beginning and the end of the period.

(7) Calculated by dividing profit for the year by the average balance of total assets at the beginning and the end of the period.

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

Comparisons between 2015 and 2014

Our profit for the year increased by 212.6% from RMB2,358.7 million in 2014 to RMB7,374.2 million in 2015, our net margin increased from 29.9% in 2014 to 36.0% in 2015, and our adjusted net margin increased from 43.5% in 2014 to 48.8% in 2015, primarily due to an increase in both revenue and profit margin in our wealth management, securities sales and trading as well as investment banking business segments.

Comparisons between 2014 and 2013

Our profit for the year increased by 140.1% from RMB982.3 million in 2013 to RMB2,358.7 million in 2014, our net margin increased from 21.4% in 2013 to 29.9% in 2014, and our adjusted net margin increased from 31.1% in 2013 to 43.5% in 2014, mainly due to an increase in both revenue and

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profit margin in our wealth management, securities sales and trading as well as investment banking business segments.

SUMMARY SEGMENT RESULTS

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the periods presented.

We have five principal business segments and financial segments: (i) wealth management, (ii) investment management, (iii) securities sales and trading, (iv) investment banking, (v) headquarters and others. The following discussions of our segment revenue and other income, segment expenses and segment results include our inter-segment revenue and inter-segment expenses. After our listing on the Shanghai Stock Exchange in March 2015, we have consolidated and reclassified our seven business segments to better align the business segments according to the Group’s internal organization, management requirements and internal reporting system, as well as be more comparable with those of other PRC listed securities firms. Due to differences in accounting principles and presentation bases of business segments historically, our financial information and consolidated financial statements included in this document are not directly comparable to financial information and consolidated financial statements prepared under PRC GAAP.

The following table sets forth our segment revenue for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Wealth management	1,637.8	2,970.5	7,813.7
Investment management	202.1	319.0	1,755.8
Securities sales and trading	2,303.9	3,318.1	8,713.9
Investment banking	260.1	512.7	920.9
Headquarters and others	244.8	865.6	1,424.7
Inter-segment elimination	(109.1)	(173.5)	(376.4)
Total revenue	4,539.6	7,812.4	20,252.6

The following table sets forth our segment revenue and other income for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Wealth management	1,646.7	2,984.1	7,832.3
Investment management	202.1	319.0	1,764.9
Securities sales and trading	2,303.9	3,319.2	8,715.8
Investment banking	255.4	513.2	945.5
Headquarters and others	292.9	926.4	1,585.0
Inter-segment elimination	(114.5)	(174.0)	(384.2)
Total revenue and other income	4,586.5	7,887.9	20,459.3

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The following table sets forth our segment expenses for the periods indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Wealth management	1,060.9	1,702.9	3,806.5
Investment management	185.9	321.5	1,051.7
Securities sales and trading	1,206.2	1,270.3	1,107.8
Investment banking	274.2	376.9	586.7
Headquarters and others	848.9	1,503.5	4,952.9
Inter-segment elimination	(0.1)	(84.8)	(109.1)
Total expenses	3,576.0	5,090.3	11,396.5

The following table sets forth our segment profit/(loss) before income tax for the periods indicated, which is calculated as segment revenue and other income minus segment expenses without allocation of income tax expenses, plus the share of results of associates:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Wealth management	585.8	1,281.2	4,025.8
Investment management	139.9	133.6	1,149.5
Securities sales and trading	1,097.7	2,048.9	7,608.0
Investment banking	(18.8)	136.3	358.8
Headquarters and others	(556.0)	(577.1)	(3,367.9)
Inter-segment elimination	(114.4)	(89.2)	(275.1)
Profit before income tax	1,134.2	2,933.7	9,499.1

The following table sets forth our segment margin for the periods indicated, which is calculated as the segment profit/(loss) before income tax divided by the segment revenue and other income:

	Year ended December 31,		
	2013	2014	2015
Wealth management	35.6%	42.9%	51.4%
Investment management	69.2%	41.9%	65.1%
Securities sales and trading	47.6%	61.7%	87.3%
Investment banking	(7.4)%	26.6%	37.9%
Headquarters and others	(189.8)%	(62.3)%	(212.5)%

Wealth Management

Segment revenue and other income from our wealth management business primarily consists of commission and fee income from securities brokerage and consultancy services and interest income from securities financing services. Segment expenses primarily consist of commission and fee expenses, depreciation and amortization, interest expenses, staff costs, rental expenses, and other general and administrative expenses as well as business tax and surcharges.

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Comparisons between 2015 and 2014

Segment profit before income tax of our wealth management business increased by 214.2% from RMB1,281.2 million in 2014 to RMB4,025.8 million in 2015, primarily due to:

- an increase in our segment revenue and other income by 162.5% from RMB2,984.1 million in 2014 to RMB7,832.3 million in 2015, primarily due to a significant increase in our stock and fund brokerage trading volume. In addition, interest income also increased due to the increase in the balances of margin financing and securities lending business, collateralized stock repurchase and repurchase agreement transaction business as a result of a surge in trading activities in the A share market in 2015, partially offset by a decrease in the average stock and fund brokerage commission rate of our securities branches; and
- an increase in our segment expenses by 123.5% from RMB1,702.9 million in 2014 to RMB3,806.5 million in 2015, primarily due to (i) an increase in our commission and fee expenses in line with the growth of brokerage trading volume, (ii) an increase in our staff costs, rental expenses and other expenses and (iii) an increase in relevant interest expenses due to growth of our wealth management business.

As a result, the segment margin of our wealth management business increased from 42.9% in 2014 to 51.4% in 2015.

Comparisons between 2014 and 2013

The segment profit before income tax of our wealth management business increased by 118.7% from RMB585.8 million in 2013 to RMB1,281.2 million in 2014, primarily due to:

- an increase in our segment revenue and other income by 81.2% from RMB1,646.7 million in 2013 to RMB2,984.1 million in 2014, primarily due to a significant increase in our stock and fund brokerage trading volume. In addition, interest income also increased due to the increase in the balances of margin financing and securities lending business, collateralized stock repurchase and repurchase agreement transaction business as a result of the improvement in trading activities in the A share market, and the fact that we commenced our collateralized stock repurchase business in the second half of 2013; and
- Our segment expenses increased by 60.5% from RMB1,060.9 million in 2013 to RMB1,702.9 million in 2014, primarily due to (i) an increase in our commission and fee expenses in line with the growth of brokerage trading volume; (ii) an increase in our staff costs, rental expenses and other expenses and (iii) an increase in relevant interest expenses due to growth of our wealth management business.

As a result, the segment margin of our wealth management business increased from 35.6% in 2013 to 42.9% in 2014.

Investment Management

Segment revenue and other income from our investment management business primarily consists of asset management fees and performance fees. Segment expenses primarily consist of the segment's share of depreciation and amortization, staff costs, rental expenses, and other general and administrative expenses as well as business tax and surcharges. The segment profit before tax from our investment management business also includes the share of results of associates.

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Comparisons between 2015 and 2014

Segment profit before income tax of our investment management business increased by 760.4% from RMB133.6 million in 2014 to RMB1,149.5 million in 2015, primarily due to:

- an increase in our segment revenue and other income by 453.3% from RMB319.0 million in 2014 to RMB1,764.9 million in 2015, primarily driven by the strong performance of the A share market in the first half of 2015, which led to the strong overall performance of our asset management schemes and thus a significant increase in our performance fees. The increase of our segment revenue also resulted from the increase of our asset management fees, which was a result of the increased AUM. Furthermore, the net investment gains from the private equity investment business conducted through Orient Securities Capital Investment also increased significantly; and
- an increase in the share of results of associates, from RMB136.1 million in 2014 to RMB436.3 million in 2015, primarily due to an increase in the size of the funds managed by China Universal.

Our segment expenses increased by 227.1% from RMB321.5 million in 2014 to RMB1,051.7 million in 2015, primarily due to (i) an increase in the distribution expenses of asset management schemes, and (ii) an increase in staff costs as a result of the increased average salaries and headcount in our investment management business.

The segment margin of our investment management business increased from 41.9% in 2014 to 65.1% in 2015, which was mainly due to the increase in the performance fees for the asset management schemes and the economy of scale derived from the larger size of AUM.

Comparisons between 2014 and 2013

Segment profit before income tax of our investment management business decreased by 4.5% from RMB139.9 million in 2013 to RMB133.6 million in 2014, primarily due to:

- an increase in our segment revenue and other income by 57.8% from RMB202.1 million in 2013 to RMB319.0 million in 2014, primarily due to (i) higher performance fees we received in 2014, and (ii) certain net investment losses incurred from the subordinated tranches of asset management schemes subscribed with our own capital in 2013 and such investment generated certain net investment gain in 2014;
- an increase in the share of results of associates from RMB123.7 million in 2013 to RMB136.1 million in 2014, which was mainly due to the improved operating results of China Universal during the rally of the A share market in 2014; and
- an increase in our segment expenses by 72.9% from RMB185.9 million in 2013 to RMB321.5 million in 2014, primarily due to (i) an increase in staff costs as a result of the increase of headcount and average salaries for our investment management business; (ii) part of investment impairment loss provided for by Orient Securities Capital Investment in 2014; (iii) increased distribution expenses of our asset management schemes; and (iv) impairment loss provided for by us in respect of our investment in the subordinated tranches of our certain asset management schemes in 2014.

The segment margin of our investment management business decreased from 69.2% in 2013 to 41.9% in 2014, primarily due to (i) an increase in staff costs in 2014, and (ii) certain impairment loss provided for in 2014.

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Securities Sales and Trading

Segment revenue and other income from our securities sales and trading business consists primarily of net investment gains from financial assets at fair value through profit or loss and available-for-sale financial assets. The segment expenses consist primarily of interest expenses on leverage in our fixed income securities investment and trading, staff costs and other general and administrative expenses.

Comparisons between 2015 and 2014

Segment profit before income tax of our securities sales and trading business increased by 271.3% from RMB2,048.9 million in 2014 to RMB7,608.0 million in 2015, primarily due to:

- an increase in our segment revenue and other income by 162.6% from RMB3,319.2 million in 2014 to RMB8,715.8 million in 2015, primarily due to (i) an increase in our net investment gains derived from fixed income securities investment and trading, and (ii) an increase in our net investment gains from our equity securities investment and trading due to the favorable performance of the A share market in the first half of 2015, under which circumstances we captured the investment opportunities and actively managed our risks through risk control measures; and
- our segment expenses decreased by 12.8% from RMB1,270.3 million in 2014 to RMB1,107.8 million in 2015, primarily because we lowered the leverage of fixed income securities investment and trading in 2015, which resulted in a decrease in the interest expenses.

As a result, the segment margin of our securities sales and trading business increased from 61.7% in 2014 to 87.3% in 2015.

Comparisons between 2014 and 2013

Segment profit before income tax of our securities sales and trading business increased by 86.7% from RMB1,097.7 million in 2013 to RMB2,048.9 million in 2014, primarily due to:

- an increase in our segment revenue and other income by 44.1% from RMB2,303.9 million in 2013 to RMB3,319.2 million in 2014, primarily due to (i) an increase in our position of fixed income securities and the related increase in our net investment gains; and (ii) an increase in our net investment gains from our equity securities investment and trading due to favorable performance of the A share market in 2014; and
- our segment expenses increased by 5.3% from RMB1,206.2 million in 2013 to RMB1,270.3 million in 2014, primarily due to increased staff costs.

As a result, the segment margin of our securities sales and trading business increased from 47.6% in 2013 to 61.7% in 2014.

Investment Banking

Segment revenue and other income from our investment banking business primarily consists of underwriting, sponsors and financial advisory fee income. Segment expenses primarily consist of

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underwriting and sponsors expenses, staff costs, rental expenses, and other general and administrative expenses.

Comparisons between 2015 and 2014

Segment profit before income tax of our investment banking business increased from RMB136.3 million in 2014 to RMB358.8 million in 2015, primarily due to:

- an increase in our segment revenue and other income from RMB513.2 million in 2014 and to RMB945.5 million in 2015, primarily due to increases in the number and transaction volume of IPOs, secondary offerings and bonds issuance underwritten by us; and
- an increase in our segment expenses by 55.7% from RMB376.9 million in 2014 to RMB586.7 million in 2015 in line with the increased staff costs resulted from our efforts to maintain our competitiveness in remuneration.

As a result, the segment margin of our investment banking business increased from 26.6% in 2014 to 37.9% in 2015.

Comparisons between 2014 and 2013

We had a segment profit before income tax of RMB136.3 million in 2014, compared with a segment loss before income tax of RMB18.8 million in 2013, primarily due to:

- an increase in our segment revenue and other income by 100.9% from RMB255.4 million in 2013 to RMB513.2 million in 2014, primarily due to an increase in the number and transaction volume of our equity and debt underwriting after the resumption of A share IPO approval process by the CSRC in 2014; and
- an increase in our segment expenses by 37.5% from RMB274.2 million in 2013 to RMB376.9 million in 2014 in line with the increased staff costs resulted from our efforts to maintain our competitiveness in remuneration.

We had a positive segment margin of our investment banking business of 26.6% in 2014 compared with a negative segment margin of 7.4% in 2013, primarily due to the resumption of A share IPO approval process by the CSRC in 2014. Please see “Risk Factors—Risks relating to our business and industry—General economic and market conditions could adversely affect our business.”

Headquarters and Others

Headquarters and others segment revenue mainly consists of interest income from cash balance of our headquarters, net investment gains from liquidity management and revenue from Orient Finance Hong Kong. Segment expenses primarily consist of depreciation and amortization, staff costs, rental expenses, interest expenses, business tax and surcharges, other general and administrative expenses and operating expenses for Orient Finance Hong Kong.

Comparisons between 2015 and 2014

Segment loss before income tax of our headquarters and others business increased from RMB577.1 million in 2014 to RMB3,367.9 million in 2015, primarily due to an increase in our

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segment expenses by 229.4% from RMB1,503.5 million in 2014 to RMB4,952.9 million in 2015, as a result of an increase in staff costs and administrative expenses in line with our business expansion, and an increase in interest expenses resulting from the increase in our financing instruments. Such increase was partially offset by an increase in our segment revenue and other income by 71.1% from RMB926.4 million in 2014 to RMB1,585.0 million in 2015, primarily due to an increase in interest income as our cash and bank balances increased and an increase in net investment gains from liquidity management.

Comparisons between 2014 and 2013

Segment loss before income tax of our headquarters and others business increased by 3.8% from RMB556.0 million in 2013 to RMB577.1 million in 2014, primarily due to an increase in our segment expenses by 77.1% from RMB848.9 million in 2013 to RMB1,503.5 million in 2014, as a result of an increase in interest expenses for our financing instruments in 2014. Such increase was partially offset by an increase in our segment revenue and other income by 216.3% from RMB292.9 million in 2013 to RMB926.4 million in 2014, primarily due to an increase in net investment gains from liquidity management.

LIQUIDITY AND FUNDING SOURCES

Overview

Historically, we have funded our working capital and other capital requirements primarily from cash generated from our business operations. Since 2013, due to the industry deregulation and diverse client needs, we have actively engaged in and significantly expanded our securities financing businesses, particularly the margin financing and securities lending, collateralized stock repurchase and repurchase agreement transaction businesses, which are capital intensive, and therefore we have relied on a diverse range of money-markets and capital-markets financing channels. See “—Indebtedness.” We also completed our IPO and listing on the Shanghai Stock Exchange in March 2015, raising a net proceeds of RMB9,787.5 million.

As of December 31, 2015, we had cash and cash equivalents of RMB17,884.7 million.

When determining the amount of capital and other resources to be allocated to each business segment, we mainly take into account our prevailing growth strategy and business focus, the capital requirements and estimated return for each business and applicable regulatory requirements, such as those in relation to capital adequacy, liquidity and risk management.

We are of the opinion that, taking into account the net [REDACTED] from the [REDACTED] and the financial resources available to us, including cash and bank balances, cash flows from operating activities, and [REDACTED] from short-term and long-term financing instruments, our Directors believe that we have sufficient working capital for our present requirements, that is at least 12 months from the date of this document. After due consideration and discussions with our management and based on the above, the Joint Sponsors have no reason to believe that we are unable to meet the working capital requirements for the 12 months from the date of this document.

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The following table sets forth selected cash flow statement information for the years indicated:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Net cash used in operating activities	(2,228.7)	(1,688.7)	(24,056.2)
Net cash used in investing activities	(3,287.4)	(6,631.9)	(13,297.1)
Net cash from financing activities	6,407.3	12,043.2	48,480.6
Net increase in cash and cash equivalents	891.2	3,722.6	11,127.3
Cash and cash equivalents at beginning of the year	2,093.2	2,972.9	6,701.6
Effect of foreign exchange rate changes	(11.5)	6.1	55.8
Cash and cash equivalents at end of the year	2,972.9	6,701.6	17,884.7

Operating Activities

Cash from operating activities mainly includes cash received in our wealth management, investment management and investment banking business, as well as cash generated from financial assets at fair value through profit or loss, resale and repurchase transactions and cash received in connection with such activities. Cash flows from operating activities reflect: (i) adjusted profit before income tax from non-cash and non-operating items (such as share of results of associates and unrealized fair value changes of various financial assets); (ii) impact from movements in working capital (such as increases or decreases in financial assets at fair value through profit or loss, cash and bank balances and clearing settlement funds restricted or held on behalf of customers, accounts payable to brokerage clients, financial assets held under resale agreements and financial assets sold under repurchase agreements); and (iii) other cash items (such as income taxes paid and interests paid).

Despite our negative net cash flow from operations during the Track Record Period, we believe that we have strong ability to generate cash flow from operating activities during the Track Record Period and our operating cash flow before movements in working capital amounted to RMB821.0 million, RMB2,066.3 million, and RMB7,973.5 million, respectively, for 2013, 2014 and 2015. In addition, our net current assets increased from RMB14,008.5 million as of December 31, 2013 to RMB19,908.1 million as of December 31, 2014 and further to RMB69,188.2 million as of December 31, 2015, reflecting the sufficiency of our working capital during the Track Record Period.

In 2015, our net cash used in operating activities was RMB24,056.2 million, which was primary due to the impact of profit before income tax of RMB9,499.1 million and negative changes in working capital. The negative changes in working capital were primarily due to: (i) an increase of RMB24,052.4 million in financial assets at fair value through profit or loss and derivative financial assets as a result of our increased securities trading activities in 2015; (ii) an increase of RMB23,534.0 million in bank balances and clearing settlement funds restricted or held on behalf of customers as a result of growth of our brokerage business; and (iii) an increase of RMB12,979.0 million in financial assets held under resale agreements due to an increase in the scale of collateralized stock repurchase and repurchase agreement transaction business in 2015. Such cash outflows were partially offset by: (i) an increase of RMB21,379.2 million in accounts payable to brokerage clients; and (ii) an increase of RMB10,773.9 million in financial assets sold under repurchase agreements in order to support our continually growing securities financing business in 2015.

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In 2014, our net cash used in operating activities was RMB1,688.7 million, which was primary due to the impact of profit before income tax of RMB2,933.7 million and negative changes in working capital. The negative changes in working capital were primarily due to: (i) an increase of RMB11,590.0 million in bank balances and clearing settlement funds restricted or held on behalf of customers as a result of growth of our brokerage business in 2014; (ii) an increase of RMB10,724.4 million in financial assets held under resale agreements due to an increase in the scale of collateralized stock repurchase and repurchase agreement transaction businesses in 2014; and (iii) an increase of RMB7,139.9 million in advances to customers due to rapidly growth of our securities financing business in 2014. Such cash outflows were partially offset by: (i) an increase of RMB15,891.9 million in financial assets sold under repurchase agreements in order to support our continually growing securities financing business in 2014; and (ii) an increase of RMB10,888.7 million in accounts payable to brokerage clients.

In 2013, our net cash used in operating activities was RMB2,228.7 million, which was primary due to the impact of profit before income tax of RMB1,134.2 million and negative changes in working capital. The negative changes in working capital were primarily due to: (i) an increase of RMB2,105.6 million in financial assets at fair value through profit or loss and derivative financial assets caused by our securities trading activities in 2013; (ii) an increase of RMB2,098.6 million in financial assets held under resale agreements due to commencement of collateralized stock repurchase and repurchase agreement transaction business by us in 2013; and (iii) an increase of RMB1,393.1 million in advances to customers due to the growth of securities financing business. Such cash outflows were partially offset by: (i) an increase of RMB2,665.0 million in due to banks and other financial institutions in 2013; and (ii) an increase of RMB1,453.6 million in financial liabilities at fair value through profit or loss and derivative financial liabilities.

Investing Activities

Investing activities primarily include purchase and disposal of available-for-sale financial assets, purchase and disposal of property and equipment and other intangible assets, and capital injection to associates.

In 2015, the net cash used in investing activities amounted to RMB13,297.1 million, mainly due to the purchase of available-for-sale financial assets and held-to-maturity investment and loans and advances to customers of RMB104,295.4 million, which was partially offset by (i) the proceeds of RMB89,747.5 million from our disposal of available-for-sale financial assets and held-to-maturity investment and loans and advances to customers; and (ii) the dividends and interest of RMB2,109.9 million received from our investment.

In 2014, the net cash used in investing activities amounted to RMB6,631.9 million, mainly due to the purchase of available-for-sale financial assets and held-to-maturity investment and loans and advances to customers of RMB71,954.9 million, which was partially offset by (i) the proceeds of RMB63,982.5 million from our disposal of available-for-sale financial assets and held-to-maturity investment and loans and advances to customers; and (ii) the dividends and interest of RMB1,694.1 million received from our investment.

In 2013, the net cash used in investing activities amounted to RMB3,287.4 million, mainly due to the purchase of available-for-sale financial assets and held-to-maturity investment and loans and advances to customers of RMB46,091.9 million, which was partially offset by (i) the proceeds of RMB42,360.6 million from our disposal of available-for-sale financial assets and held-to-maturity investment and loans and advances to customers; and (ii) the dividends and interest of RMB1,421.2 million received from our investment.

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Financing Activities

Financing activities primarily include issuance of shares, issuance of bonds and short-term financing bills, borrowings, the distribution of dividends paid to our shareholders and the payment of interest on our debt instruments.

In 2015, our net cash from financing activities amounted to RMB48,480.6 million, mainly reflecting (i) the net proceeds of RMB40,654.4 million from the issuance of bonds and short-term financing bills payables; and (ii) the IPO of our A Shares listed on Shanghai Stock Exchange in March 2015 with net proceeds of RMB9,787.5 million, which was partially offset by (i) the dividends of RMB1,324.4 million paid to our shareholders in 2015; and (ii) the interest of RMB1,099.6 million paid on our bonds and short-term financing bills payables.

In 2014, our net cash from financing activities amounted to RMB12,043.2 million, mainly reflecting the net proceeds of RMB12,565.1 million from the issuance of bonds and short-term financing bills payables, which was partially offset by (i) the interest of RMB483.1 million paid on our bonds and short-term financing bills payables; and (ii) the dividends of RMB420.0 million paid to our shareholders.

In 2013, our net cash from financing activities amounted to RMB6,407.3 million, mainly reflecting the net proceeds of RMB6,900.0 million from the issuance of bonds and short-term financing bills payables, which was partially offset by the dividends of RMB418.8 million paid to our shareholders.

Assets and Liabilities

In order to ensure appropriate liquidity management and capital allocation, we dynamically monitor the size and composition of our balance sheet and seek to maintain a liquid balance sheet. The majority of our balance sheet consists of current assets and current liabilities, reflecting the highly liquid nature of our business.

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Current Assets and Liabilities

The following table sets forth the components of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of February 29,
	2013	2014	2015	2016
				(unaudited)
	(RMB in millions)			
Current assets				
Advances to customers	2,807.0	9,946.1	14,241.1	10,446.6
Accounts receivable	117.3	131.2	502.4	2,504.0
Other receivables and prepayments	1,256.5	1,982.1	4,315.2	2,755.3
Available-for-sale financial assets	28,667.1	37,539.7	48,507.4	47,774.6
Held-to-maturity investments	—	—	920.1	288.0
Financial assets held under resale agreements	2,157.9	8,037.2	16,288.5	18,425.0
Financial assets at fair value through profit or loss	5,116.0	7,273.6	31,870.9	23,045.3
Derivative financial assets	51.6	56.8	77.4	343.0
Deposits with exchanges and non-bank financial institutions	287.2	756.6	1,060.0	1,070.3
Clearing settlement funds	3,147.1	5,648.6	8,825.4	8,864.3
Cash and bank balances	10,986.1	23,803.2	55,343.4	49,621.4
Total current assets	54,593.8	95,175.1	181,951.8	165,137.8
Current liabilities				
Borrowings	—	2.3	383.7	813.6
Due to banks and other financial institutions	3,815.0	6,983.0	10,200.0	2,100.0
Accounts payable to brokerage clients	10,893.7	21,783.1	43,193.3	40,801.9
Accrued staff costs	207.8	356.6	1,928.9	1,394.9
Other account payables, other payables and accruals	360.8	1,197.9	2,204.0	2,798.5
Current tax liabilities	60.6	273.0	1,682.5	1,538.3
Bonds payables	—	—	4,781.2	4,790.6
Short-term financing bills payables	2,500.0	6,779.8	8,396.1	6,758.4
Financial liabilities at fair value through profit or loss	1,533.1	878.2	3,147.3	3,578.9
Derivative financial liabilities	—	0.4	181.5	65.2
Financial assets sold under repurchase agreements	21,214.3	37,012.7	36,665.1	37,238.5
Total current liabilities	40,585.3	75,267.0	112,763.6	101,878.8
Net current assets	14,008.5	19,908.1	69,188.2	63,259.0

Our current assets consist primarily of (i) cash and bank balances including cash held on behalf of brokerage clients, deposits with exchanges and non-bank financial institutions, and clearing settlement funds from our securities and futures brokerage services, (ii) financial assets held under resale agreements resulted from our collateralized stock repurchase and repurchase agreement transaction services, (iii) advances to customers resulted from our margin financing and securities lending business, (iv) financial assets at fair value through profit or loss and available-for-sale financial assets from our securities sales and trading business and liquidity management. Our current liabilities include (i) accounts payable to brokerage clients, and (ii) financial assets sold under repurchase agreements, short-term financing bills payables, and amounts due to banks and other financial institutions as a result of our funding activities. Our Directors confirm that we did not have any material default in payment of trade and non-trade payables during the Track Record Period.

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We include various client deposits as current assets, including cash held on behalf of brokerage clients and client clearing settlement funds. We include accounts payable to brokerage clients as current liabilities. Client deposits fluctuate based on our clients’ trading activities, market conditions and other external factors beyond our control. As a result, client deposits in our brokerage business are not a meaningful indicator of our financial condition or results of operations. See “—Adjusted current assets and liabilities” below for information on our assets and liabilities excluding client deposits in our brokerage business.

We had net current assets of RMB69,188.2 million as of December 31, 2015, as compared to net current assets of RMB19,908.1 million as of December 31, 2014, primarily due to (i) an increase of RMB31,540.2 million in our cash and bank balances primarily reflecting the substantial increase in cash held on behalf of brokerage clients in line with the increased trading volume of securities brokerage business in 2015, (ii) an increase of RMB24,597.3 million in financial assets at fair value through profit or loss and an increase of RMB10,967.7 million in available-for-sale financial assets as a result of the increase in our securities sales and trading business, and (iii) an increase of RMB8,251.3 million in financial assets held under resale agreements as a result of the substantial growth of our securities financing businesses, which was partially offset by an increase of RMB21,410.2 million in accounts payable to brokerage clients.

Our net current assets of increased from RMB14,008.5 million in 2013 to RMB19,908.1 million in 2014, primarily due to (i) an increase of RMB5,879.3 million in financial assets held under resale agreements and an increase of RMB7,139.1 million in advances to customers as a result of the substantial growth of our securities financing businesses in 2014; (ii) an increase of RMB12,817.1 million in our cash and bank balances primarily reflecting the substantial increase in cash held on behalf of brokerage clients in line with the increased trading volume of securities brokerage business in 2014 and (iii) an increase of RMB8,872.6 million available-for-sale financial assets as a result of the growth of our securities sales and trading business, which was partially offset primarily by (i) an increase of RMB10,889.4 million in accounts payable to brokerage clients, and (ii) an increase of RMB15,798.4 million in financial assets sold under repurchase agreements, an increase of RMB4,279.8 million in short-term financing bills payables, and an increase of RMB3,168.0 million in amounts due to banks and other financial institutions as a result of our increased financing activities in 2014 to fund the growth of our businesses.

Adjusted Current Assets and Liabilities

Client deposits fluctuate based on our clients’ trading activities, financial market conditions and other factors extrinsic to our business. Consequently, although we earn some interest income from these deposits, client deposits tend not to be meaningful indicators of our financial condition or operating performance. We have therefore adjusted our current assets and liabilities in the following table to exclude the effect of client deposits:

	As of December 31,			As of February 29,
	2013	2014	2015	2016
				(unaudited)
	(RMB in millions)			
Adjusted current assets ⁽¹⁾	43,700.1	73,392.0	138,758.5	124,335.9
Adjusted current liabilities ⁽²⁾	29,691.6	53,483.9	69,570.3	61,076.8
Current ratio ⁽³⁾	1.5	1.4	2.0	2.0

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- (1) Adjusted current assets equal total current assets less accounts payable to brokerage clients, the latter representing the amount of deposits held by us on behalf of our brokerage clients.
- (2) Adjusted current liabilities equal total current liabilities less accounts payable to brokerage clients.
- (3) Current ratio is calculated by dividing adjusted current assets by adjusted current liabilities.

We believe the adjusted net current assets is a more meaningful indicator of our financial performance because it does not include the impact of deposits from brokerage clients, which as discussed above, is largely unrelated to our financial performance but can cause substantial changes in our balance sheet.

Non-current Assets and Liabilities

The following table sets forth the components of non-current assets and liabilities as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Non-current assets			
Property and equipment	1,465.7	1,536.9	1,718.1
Goodwill	32.1	32.1	32.1
Other intangible assets	73.3	86.2	96.6
Investments in associates	780.0	1,003.8	1,908.5
Available-for-sale financial assets	1,966.8	2,892.7	11,369.4
Held-to-maturity investments	1,259.2	1,247.2	293.9
Financial assets held under resale agreements	637.0	5,482.0	10,209.7
Deferred tax assets	44.6	74.1	317.5
Total non-current assets	6,258.7	12,355.0	25,945.8
Non-current liabilities			
Financial assets sold under repurchase agreements	—	93.5	11,215.0
Deferred tax liabilities	89.4	501.4	976.6
Bonds payables	4,399.7	12,679.8	47,181.2
Borrowings	—	362.9	385.4
Total non-current liabilities	4,489.1	13,637.6	59,758.2

Our non-current assets consist primarily of available-for-sale financial assets, property and equipment, investments in associates and financial assets held under resale agreements. Our property and equipment consist primarily of commercial real property and operating facilities used by our headquarters and branches. Our available-for-sale financial assets primarily include our investments in unlisted companies, fixed income securities and wealth management products. Our financial assets held under resale agreements primarily reflect financing we provide to our clients in the collateralized stock repurchase business. Our investments in associates reflect mainly our investments in China Universal. Our non-current liabilities consist primarily of bonds payables and financial assets sold under repurchase agreements.

Our total non-current assets increased by 110.0% from RMB12,355.0 million as of December 31, 2014 to RMB25,945.8 million as of December 31, 2015, primarily due to (i) an increase of RMB8,476.7 million in available-for-sale financial assets reflecting our increased position of our securities sales and trading and liquidity management business in 2015, and (ii) an increase of

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RMB4,727.7 million in financial assets held under resale agreements due to the substantial growth of our securities financing businesses in 2015. Our total non-current liabilities increased by 338.2% from RMB13,637.6 million as of December 31, 2014 to RMB59,758.2 million as of December 31, 2015, primarily due to an increase of RMB34,501.4 million in bonds payables as a result of our increased financing in 2015 to fund our business expansions.

Our total non-current assets increased by 97.4% from RMB6,258.7 million as of December 31, 2013 to RMB12,355.0 million as of December 31, 2014 primarily due to (i) an increase of RMB925.9 million in available-for-sale financial assets reflecting our increased position of our securities sales and trading and liquidity management business in 2014; and (ii) an increase of RMB4,845.0 million in financial assets held under resale agreements due to the substantial growth of our securities financing businesses in 2014. Our total non-current liabilities increased significantly from RMB4,489.1 million as of December 31, 2013 to RMB13,637.6 million as of December 31, 2014 primarily due to an increase of RMB8,280.1 million in bonds payables as a result of our increased financing in 2014 to fund our business expansions.

Indebtedness

None of our indebtedness agreement has material restrictive covenants. As of February 29, 2016, the latest date for determining our indebtedness, we had total current indebtedness of RMB14,462.6 million and non-current indebtedness of RMB46,894.2 million.

The following table sets forth a breakdown of our indebtedness by type as of the dates indicated:

	As of December 31,			As of
	2013	2014	2015	February 29,
				2016
				(unaudited)
	(RMB in millions)			
Current:				
Borrowings	—	2.3	383.7	813.6
Short-term financing bills payables:				
Short-term financing bills	2,500.0	5,000.0	6,200.0	5,000.0
Income certificates	—	1,779.8	2,196.1	1,758.4
	2,500.0	6,779.8	8,396.1	6,758.4
Amounts due to banks and other financial institutions				
Due to banks	2,700.0	4,700.0	4,500.0	1,400.0
Due to China Securities Finance Corporation	1,115.0	2,283.0	5,700.0	700.0
	3,815.0	6,983.0	10,200.0	2,100.0
Bonds payables				
Corporate bonds	—	—	3,000.0	2,999.8
Subordinated bonds	—	—	800.0	800.0
Offshore bonds	—	—	981.2	990.8
	—	—	4,781.2	4,790.6
Subtotal	6,315.0	13,765.1	23,761.0	14,462.6

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	As of December 31,			As of February 29,
	2013	2014	2015	2016
				(unaudited)
	(RMB in millions)			
Non-current:				
Bonds payables				
Corporate bonds	—	5,999.5	17,999.4	17,999.4
Subordinated bonds	4,399.7	5,798.5	11,598.8	11,598.8
Income certificates	—	—	13,816.5	13,497.6
Offshore bonds	—	881.8	3,766.5	3,798.4
	4,399.7	12,679.8	47,181.2	46,894.2
Borrowings	—	362.9	385.4	—
Subtotal	4,399.7	13,042.7	47,566.6	46,894.2
Total	10,714.7	26,807.8	71,327.6	61,356.8

Borrowings

Current

We had current borrowings of nil, RMB2.3 million, RMB383.7 million and RMB813.6 million as of December 31, 2013, December 31, 2014, December 31, 2015, and February 29, 2016, respectively, of which, RMB387.3 million was reclassified to current borrowings from non-current borrowings due to its maturity of less than one year as of February 29, 2016.

Non-current

As of December 31, 2014, December 31, 2015 and February 29, 2016, the outstanding balance of our non-current borrowings was RMB362.9 million, RMB385.4 million and nil, respectively. In July 2014, we obtained a long-term secured and guaranteed loan of HK\$460.0 million from a financial institution, to finance Orient Finance Hong Kong, our subsidiary, to subscribe shares of Orient Sun Rise Fund Series SPC — Orient Sun Rise China Bond Fund Segregated Portfolio. Such loan was secured by shares of Orient Sun Rise China Bond Fund Segregated Portfolio purchased by Orient Finance Hong Kong. The loan carries interest at a floating rate of 3.3% plus HIBOR per annum (adjusted to 2.1% from October 29, 2015), payable quarterly, and will mature in January 2017.

As of February 29, 2016, our unutilized banking facilities amounted to approximately HK\$130 million.

Short-term Financing Bills

Subject to the approval from the PBOC, we can issue short-term unsecured debt securities in the PRC interbank bond market. During the Track Record Period and up to February 29, 2016, we issued 19 tranches of short-term financing bills with an aggregate principal amount of RMB43,800.0 million in the PRC inter-bank market. All of our short-term financing bills are unsecured and unguaranteed. As of February 29, 2016, we had two tranches of outstanding short-term financing bills with aggregate principal amount of RMB5,000.0 million, all of which were repayable within three months from the issuance date. We use the net proceeds from our continuous issues of short-term financing bills primarily to finance our working capital. The following table sets forth the range of interest rates of short-term financing bills outstanding as of the dates indicated:

	As of December 31,			As of February 29,
	2013	2014	2015	2016
Interest rates (% per annum)	4.9 – 5.9	3.6 – 5.0	2.0 – 4.0	2.0 – 4.0

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Amounts Due to Banks and Other Financial Institutions

Interbank lending

We are a member of the interbank lending market in China and able to obtain interbank lending with a term within seven days to quickly replenish our short-term liquidity. We generally pay an interest rate on interbank lending based on the SHIBOR. Our interbank lending is typically unsecured. As of February 29, 2016, the balance of our interbank lending was RMB1,400.0 million.

China Securities Finance Corporation

We obtain funds from the China Securities Finance Corporation, which can be used solely for our margin financing and securities lending businesses. As of December 31, 2013, 2014 and 2015 and February 29, 2016, the balance of our placements from China Securities Finance Corporation was RMB1,115.0 million, RMB2,283.0 million, RMB5,700.0 million and RMB700.0 million, respectively.

We borrowed funds of RMB5,000.0 million from China Securities Finance Corporation in July 2015 for a term of 182 days. We used some of the equity securities held by us as collateral and agreed to pay interest according to the rates determined by China Securities Finance Corporation. As of December 31, 2015, such funds provided by China Securities Finance Corporation had an interest rate of 4.4% per annum. As of February 29, 2016, we had repaid the amount of RMB5,000.0 million in full.

Bonds

Corporate bonds

The following table sets forth the domestic and offshore bonds issued by us on the dates indicated:

Bond type (domestic/offshore)	Date of issuance	Maturity	Coupon rate (%)	Principal
Domestic	August 2014	5 years	6.0%	RMB6 billion
Offshore	November 2014	3 years	6.5%	RMB900 million
Offshore	May 2015	3 years	4.2%	US\$200 million
Offshore	August 2015	2 years and 112 days	6.5%	RMB620 million
Offshore	August 2015	3 years	4.1%	US\$150 million
Offshore	November 2015	360 days	4.5%	RMB1 billion
Domestic	November 2015	1 year	3.7%	RMB3 billion
Domestic	November 2015	5 years	3.9%	RMB12 billion

Subordinated bonds

We also issue debt securities in China that are subordinated to our other senior indebtedness, such as corporate bonds and bank loans, and only rank before our equity securities in case of liquidation. As part of the subordinated bonds is treated as net capital, issuing subordinated bonds can help strengthen our capital adequacy. During the Track Record Period and up to February 29, 2016, we had issued five subordinated bonds with a total principal amount of RMB12.4 billion. The table below sets forth the interest rate range for the subordinated bonds outstanding as of the dates indicated:

	As of December 31,			As of February 29,
	2013	2014	2015	2016
Interest rates (% per annum)	6.3 – 6.7	5.5 – 6.7	5.5 – 6.8	5.5 – 6.8

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We intend to issue subordinated bonds on an as needed basis in accordance with our working capital requirements in consideration of market conditions. We plan to use the net proceeds from such issuances primarily to fund our working capital and replenish net capital.

Income Certificates

We became eligible to participate in a quotation system in August 2014. We issue income certificates either with the payment of principal and return linked to specific underlying assets or with a fixed return. We used the net proceeds from issuance of income certificates primarily to fund our working capital. As of February 29, 2016, we had outstanding unsecured and unguaranteed income certificates of RMB15,256.0 million bearing fixed interest rates or interest rates linked to certain stock indexes.

The following table sets forth the breakdown for the balances in the principal of income certificates outstanding as of the dates indicated:

	As of December 31,			As of
	2013	2014	2015	February 29,
				2016
				(unaudited)
	(RMB in millions)			
Current income certificates	—	1,779.8	2,196.1	1,758.4
Non-current income certificates	—	—	13,816.5	13,497.6

Contingent Liabilities

As of December 31, 2015, we were not involved in any material legal, arbitration or administrative proceedings that if adversely determined, we expect would materially adversely affect our financial position or results of operations, although there can be no assurance that this will be the case in the future.

Apart from the foregoing, as of December 31, 2015, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

During the Track Record Period, we did not have any material default on our indebtedness, and as of the Latest Practicable Date, all of our outstanding long-term and short-term bonds and loans were not subject to any material restrictive covenants.

Our Directors confirm that there has been no material change in our contingent liabilities since December 31, 2015 to the date of this document.

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CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table below sets forth our commitments as of the dates indicated:

	As of December 31,			As of
	2013	2014	2015	February 29,
				2016
				(unaudited)
	(RMB in millions)			
Capital commitments:				
Capital expenditure in respect of acquisition of property, plant and equipment				
Contracted, but not provided for:	284.9	203.8	63.5	63.5
Operating lease commitments:				
Within one year (inclusive)	145.0	161.8	178.7	173.8
In the second year (inclusive)	121.2	132.8	116.0	101.6
In the third year (inclusive)	105.1	66.5	82.4	77.1
Over three years	124.7	105.1	103.2	89.7
	<u>496.0</u>	<u>466.2</u>	<u>480.3</u>	<u>442.2</u>

During the Track Record Period, our capital commitments were mainly attributable to capital expenditure in respect of acquisition of property, plant and equipment as well as operating lease. We expect to fund our capital commitment with cash generated from our operations. We lease some of our office properties from third parties under non-cancellable operating leases.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprise expenditures for the purchase of property, equipment, intangible assets and other long-term assets. The following table sets forth our capital expenditures for the periods presented:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Purchase of property, equipment, intangible assets and other long-term assets	981.5	297.0	399.8

In 2013, 2014 and 2015, our capital expenditures were primarily used to construct our new headquarters. We funded these expenditures primarily with working capital.

As of December 31, 2015, we estimated that our capital expenditures for 2016 will be approximately RMB485.0 million, which we will use primarily for the construction of IT infrastructure, the construction of our new headquarters, and the establishment of capital-light securities branches. We expect to fund these capital expenditures with cash flow generated from our operations.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 54 to the Accountants’ Report in Appendix I to this document were conducted in the ordinary course of business on an arm’s length

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basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related parties’ transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As of February 29, 2016, we did not have any outstanding, off-balance sheet guarantees.

NET CAPITAL AND OTHER REGULATORY REQUIREMENTS

The following table sets forth key regulatory risk control indicators and liquidity indicators of the Company that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:

	As of December 31,			Warning level ⁽¹⁾	Required level
	2013	2014	2015		
Net capital (RMB in millions) ⁽²⁾	11,188.2	11,731.0	25,758.9	240.0	>200.0
Net capital / total risk capital reserves (%) ⁽³⁾	983.5%	618.0%	796.3%	120%	>100%
Net capital / net assets (%)	72.2%	65.1%	76.0%	48%	>40%
Net capital / total liabilities ⁽⁴⁾ (%)	35.0%	18.4%	21.5%	9.6%	>8%
Net assets / total liabilities ⁽⁴⁾ (%)	48.5%	28.3%	28.3%	24%	>20%
Value of equity securities and derivatives held / net capital ⁽⁵⁾ (%)	67.3%	76.2%	83.1% ⁽⁶⁾	80%	<100%
Value of fixed income securities held / net capital (%)	245.7%	315.9%	247.1%	400%	<500%
Liquidity coverage ratio ⁽⁷⁾	n/a	118.8%	140.3%	100% ⁽⁹⁾ / 120% ⁽¹¹⁾	≥80% ⁽¹⁰⁾ / ≥100% ⁽¹¹⁾
Net stable funding ratio ⁽⁸⁾	n/a	89.2%	166.4%	100% ⁽⁹⁾ / 120% ⁽¹¹⁾	≥80% ⁽¹⁰⁾ / ≥100% ⁽¹¹⁾

(1) Pursuant to the Risk Control Indicator Management Measures of Securities Companies, if the risk control index is required to stay above a certain level, the warning ratio is 120% of the stipulated minimum requirement, and if the risk control index is required to stay below a certain level, the warning ratio is 80% of the stipulated maximum requirement.

(2) Net capital is measured by subtracting from net assets the risk adjustments required to be made to a securities firm’s financial assets, other assets and contingent liabilities, and further adding or subtracting any other adjustments determined or authorized by the CSRC.

(3) For an explanation of how total risk capital reserves are calculated, see “Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control.”

(4) For purposes of calculating the risk control index, total liabilities do not include accounts payable to brokerage clients.

(5) We have entered into the *Master Agreement on Transactions of OTC Derivatives in PRC Securities and Futures Market* and *Transaction Confirmation of Income Swaps* with China Securities Finance Corporation in July and September 2015, respectively, in accordance with which we allotted a total amount of RMB6.5 billion as investment fund to China Securities Finance Corporation. The investment will be under the unified operation of China Securities Finance Corporation through a specific account opened by it with the investment risks and profits shared by us on investment proportion. For the ratio of “value of equity securities and derivatives held / net capital” at the end of the period, we included such investment fund into the item of “value of equity securities and derivatives held” in this ratio at 100% of its ending balance with reference to stock treatment.

(6) Although the ratio of our value of equity securities and derivatives held / net capital as of December 31, 2015 exceeded the warning level, our operations and financial condition has not been restricted or affected.

(7) Calculated by dividing high quality liquid assets by total net cash outflows over the next 30 days. The calculation of liquidity coverage ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Firms (《證券公司流動性風險管理指引》) issued by SAC effective on March 1, 2014. The high quality liquid assets refers to assets which can be readily converted into cash at small or no loss of value in the financial market under a stress scenario. The total net cash outflows over the next 30 days equals total expected cash outflows minus the total expected cash inflows for the subsequent 30 days.

(8) Calculated by dividing available amount of stable funding by required amount of stable funding. The calculation of net stable funding ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Firms. The available amount of stable funding is defined as the equity and liabilities which provide stable sources of funds over a one-year period under a continued stress scenario. The required amount of stable funding is calculated as the sum of the value of assets or off-balance sheet exposures of a securities firm, multiplied by the respective factors.

(9) The applicable warning level before June 30, 2015.

(10) The applicable required level by December 31, 2014.

(11) The applicable warning level and required level since June 30, 2015.

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We have established a dynamic net capital monitoring mechanism to comply with statutory net capital requirements and other regulatory standards to maintain capital adequacy pursuant to the Risk Control Indicator Measures. We also need to maintain a minimum amount of net capital necessary to engage our securities brokerage, investment banking, securities sales and trading, investment management and margin financing and securities lending businesses.

We closely monitor all risk control and liquidity indicators when conducting our business, particularly the securities sales and trading business as well as securities financing business. In relation to all risk control and liquidity indicators, we adopt an early warning and reporting mechanism in our risk management system that is more stringent than the regulatory warning levels to minimize compliance risk. We also conduct sensitivity analysis on these risk control and liquidity indicators before we launch a new business or product, approve material capital expenditures, or declare dividends. We conduct regular stress testing to forecast our risk control and liquidity indicators when facing extreme market or business environments. During the Track Record Period, we were in compliance with regulatory requirements using major risk control indicators with a focus on net capital.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We have designed a risk management and control system to measure, monitor and manage financial risks arising in the ordinary course of business. See “Business—Risk Management” and note 57 to the Accountants’ Report in Appendix I to this document for an overview of our risk management processes. The main financial risks faced by us in the ordinary course of business are credit risk, market risk, including interest rate risk, currency risk, and price risk, and liquidity risk. As we expand our business by offering new products and services, doing business with individuals and entities that are not within our traditional client and counterparty base, and entering new geographical markets, we are exposed to new regulatory and business challenges and risks, and the complexity of the risks we face has increased. The following discussion of our main financial risks and the estimated amounts of our risk exposure generated by our risk measurement models are forward-looking statements. These analyses and the results of our risk measurement models are not, however, predictions of future events, and our actual results may be significantly different from the analyses and results due to events in the global economy or the markets where we operate, as well as other factors described below.

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Credit Risk

Credit risk is the risk of loss arising from a borrower’s or counterparty’s failure to meet its contractual obligations to us or downgrade of its credit rating. We face credit risk primarily in two areas: (1) defaults on fixed income securities and derivatives, where the issuer of the debt securities or our counterparty may default on its payment obligations with respect to the debt securities and (2) in our margin financing and securities lending activities and repurchase transactions, where we take the risk that our clients may default on their obligations to us. Our credit risk is mitigated by a combination of our internal risk management measures as well as regulatory requirements, as discussed in note 57 of the Accountants’ Report in Appendix I to this document. We mitigate credit risk in margin financing and securities lending, repurchase transactions and in fixed income products defaults through a variety of measures, including due diligence on counterparties, credit approval, continual monitoring, risk evaluation, and by restricting investments based upon credit ratings and investment quota. Our maximum credit risk exposure, being the carrying amount of the respective recognized financial assets net of impairment allowances, without taking account of any collateral and other credit enhancements, is set out below:

	As of December 31,		
	2013	2014	2015
	(RMB in millions)		
Advances to clients	2,807.0	9,946.1	14,241.1
Accounts receivable	117.3	131.2	502.4
Other receivables	1,210.7	1,931.1	4,207.4
Held-to-maturity financial assets	1,259.2	1,247.2	1,214.0
Available-for-sale financial assets	21,465.2	30,800.0	34,568.6
Financial assets held under resale agreements	2,794.9	13,519.2	26,498.2
Financial assets at fair value through profit or loss	2,674.3	2,964.3	7,617.8
Derivative financial assets	51.6	56.8	77.4
Deposits with exchanges and non-bank financial institutions	287.2	756.6	1,060.0
Clearing settlement funds	3,147.1	5,648.6	8,825.4
Cash and bank balances	10,986.1	23,803.2	55,343.4
Maximum credit exposure	46,800.6	90,804.3	154,155.7

Interest Rate Risk

Interest rate risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from adverse movements in interest rates. Our interest-bearing assets mainly include cash and bank balances, clearing settlement funds, deposits with exchanges and non-bank financial institutions and bond investments.

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We use interest rate sensitivity analysis as the principal tool to monitor our interest rate risk. Our use of interest rate sensitivity analysis assumes all other variables remain constant. Assuming a shift in market interest rates across the board, and without taking into consideration our risk management activities to reduce interest rate risk, the impact of such a shift on our profit for the year and equity based on our interest rate sensitivity analysis is as follows:

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Profit for the year			
Increase by 50 bps	(99.7)	(108.1)	(96.8)
Decrease by 50 bps	100.8	109.9	99.7
Equity			
Increase by 50 bps	(442.3)	(568.0)	(585.3)
Decrease by 50 bps	454.4	585.0	603.3

Currency Risk

Currency risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from fluctuations in foreign exchange rates. Except for our overseas subsidiaries which hold financial assets that are denominated in foreign currencies, we only hold a small amount of foreign currency denominated investment so that we have not carried out the sensitivity analysis for changes in exchange rate.

Market Risk

We are 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 is mainly the proportionate fluctuation in our profit for the year due to the price fluctuation of the held for trading financial instruments and the proportionate fluctuation in our equity due to the price fluctuation of the held for trading and available-for-sale financial instruments. Other than daily monitoring of the investment position, trading and earnings indicators, we use VaR, risk sensitivity indicators and stress testing indicators to monitor our price risk.

The analysis below shows the impact on our profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, funds, derivatives and asset management schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in our profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Year ended December 31,		
	2013	2014	2015
	(RMB in millions)		
Profit before income tax			
Increase by 10%	236.9	415.5	2,167.6
Decrease by 10%	(236.9)	(415.5)	(2,167.6)
Other comprehensive income before income tax			
Increase by 10%	859.9	879.5	2,353.2
Decrease by 10%	(859.9)	(879.5)	(2,353.2)

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Liquidity Risk

Liquidity risk is the risk that our capital or funds will be insufficient to meet our financial obligations in a timely manner. We have established a dynamic monitoring system, described in more details in note 57 of the Accountants’ Report in Appendix I to this document, to ensure that we have, for each period in which our financial obligations become due, sufficient assets to meet those obligations.

The following tables set out the details of the remaining contractual maturities and our non-derivative financial liabilities as of December 31, 2013, 2014 and 2015. 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 period) and the earliest date we can be required to pay.

As of December 31, 2015						
	On demand	Less than three months	Three months to one year	One year to five years	Five years and above	Total
(RMB in millions)						
Borrowings	—	778.1	—	—	—	778.1
Short-term financing bills payables	—	7,798.9	710.1	—	—	8,509.0
Due to banks and other financial institutions	—	10,227.5	—	—	—	10,227.5
Accounts payable to brokerage clients	43,193.3	—	—	—	—	43,193.3
Financial liabilities at fair value through profit or loss	—	564.2	2,644.7	—	—	3,208.9
Other account payables and other payables	1,851.8	—	—	—	—	1,851.8
Financial assets sold under repurchase agreements	—	26,767.5	10,897.7	11,782.9	—	49,448.1
Bonds payables	—	—	4,986.9	37,236.5	12,467.7	54,691.1
Total	45,045.1	46,136.2	19,239.4	49,019.4	12,467.7	171,907.8

As of December 31, 2014						
	On demand	Less than three months	Three months to one year	One year to five years	Five years and above	Total
(RMB in millions)						
Borrowings	—	3.4	12.4	366.2	—	382.0
Short-term financing bills payables	—	5,970.6	896.0	—	—	6,866.6
Due to banks and other financial institutions	—	6,162.4	892.5	—	—	7,054.9
Accounts payable to brokerage clients	21,783.1	—	—	—	—	21,783.1
Financial liabilities at fair value through profit or loss	—	—	878.2	—	—	878.2
Other account payables and other payables	816.3	—	—	—	—	816.3
Financial assets sold under repurchase agreements	—	24,669.4	12,969.4	100.0	—	37,738.8
Bonds payables	—	—	787.1	14,059.6	—	14,846.7
Total	22,599.4	36,805.8	16,435.6	14,525.8	—	90,366.6

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	As of December 31, 2013					
	<u>On demand</u>	<u>Less than three months</u>	<u>Three months to one year</u>	<u>One year to five years</u>	<u>Five years and above</u>	<u>Total</u>
	(RMB in millions)					
Short-term financing bills						
payables	—	2,533.3	—	—	—	2,533.3
Due to banks and other financial						
institutions	—	3,429.8	414.3	—	—	3,844.1
Accounts payable to brokerage						
clients	10,893.7	—	—	—	—	10,893.7
Financial liabilities at fair value						
through profit or loss	136.2	—	1,396.9	—	—	1,533.1
Other account payables and other						
payables	226.4	—	—	—	—	226.4
Financial assets sold under						
repurchase agreements	—	18,701.3	2,658.3	—	—	21,359.6
Bonds payables	<u>—</u>	<u>—</u>	<u>291.6</u>	<u>4,983.2</u>	<u>—</u>	<u>5,274.8</u>
Total	11,256.3	24,664.4	4,761.1	4,983.2	—	45,665.0

DIVIDEND POLICY

After the completion of the [REDACTED], we may distribute dividends in the form of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and will be subject to our 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 our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important.

According to the applicable PRC laws and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allocations:

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

Furthermore, as required by the CSRC, as a securities firm, we are not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in our distributable profits. Our Articles of Association require us to distribute cash dividends in any fiscal year in an amount equal to at least 30% of the distributable profits in the same year. We are required to

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explain to the shareholders if the cash dividends distributed for the year is less than 30% of the distributable profits during the same year.

After completion of the [REDACTED], 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.

For the year ended December 31, 2013 and 2014, we declared cash dividends of RMB428.2 million and RMB792.3 million, respectively, representing a dividend of RMB0.10 and RMB0.15 per A Share, respectively. For the year ended December 31, 2015, we declared cash dividend of RMB2,376.8 million in total, representing a dividend of RMB0.45 per A share, of which, the interim dividend of RMB528.2 million for 2015 had been paid in full, and the remaining RMB1,848.6 million has been approved by the Board and is subject to the approval at Shareholders’ meeting. Our historical dividends may not be indicative of future dividends payments.

DISTRIBUTABLE RESERVES

As of December 31, 2015, we had RMB7,448.6 million in retained profits, as determined under IFRS, available for distribution to our shareholders.

[REDACTED] EXPENSES

[REDACTED] expenses represent professional fees, [REDACTED] commissions, incentive fee, and other fees incurred in connection with the [REDACTED] and the [REDACTED]. [REDACTED] expenses to be borne by us are estimated to be approximately HK\$[REDACTED], of which approximately HK\$[REDACTED] is attributable to the issue of H Shares to the public and will be capitalized, and approximately HK\$[REDACTED] is expected to be reflected in our consolidated income statements. Our Directors do not expect such expenses to materially impact our results of operations for 2016.

[REDACTED]

FINANCIAL INFORMATION

[REDACTED]

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

As a company listed on the Shanghai Stock Exchange, we are required to publish our quarterly (for the first and third quarters of each year), interim (for the first six months of each year) and annual reports with respect to our A Shares under the listing rules of the Shanghai Stock Exchange. These reports are prepared in conformity with PRC GAAP. Our quarterly financial information in both English and Chinese will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our **[REDACTED]** on the Hong Kong Stock Exchange. We will publish annual and semi-annual financial information under IFRS for H Share disclosure purpose and annual, semi-annual and quarterly financial information under PRC GAAP for A Share disclosure purpose simultaneously.

In addition, we are also required by the CSRC to announce selected unconsolidated unaudited monthly operating income and net profit and month-end net assets of our Company and its two securities subsidiaries, namely Orient Securities Asset Management and Citi Orient, prepared in conformity with PRC GAAP, by way of an announcement published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn/>) on a monthly basis. Our monthly selected unconsolidated financial data in both English and Chinese will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our **[REDACTED]** on the Hong Kong Stock Exchange.

NO MATERIAL ADVERSE CHANGE

Except as disclosed in “Summary—Recent Developments,” our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, as of the date of this document, there has been no other material adverse change in our financial position or prospects since December 31, 2015 and there has been no other event since December 31, 2015 which would have material adverse effect on the information presented in the Accountants’ Report in Appendix I to this document.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

For details of discussions on our future plans, please refer to the section headed “Business-Business Strategies” in this document.

USE OF [REDACTED]

Assuming that the [REDACTED] is HK\$[REDACTED] per H Share (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per H Share) and the [REDACTED] is not exercised, we estimate that we will receive net [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED] after deducting the [REDACTED] commissions and other estimated expenses in connection with the [REDACTED].

In line with our business strategies, we aim to become a leading provider of comprehensive financial services. We intend to use our net [REDACTED] from the [REDACTED] for the purposes and in the amounts set out below:

- Approximately [REDACTED] or HK\$[REDACTED], in our wealth management business:
 - Primarily expanding the collateralized stock repurchases business; selectively developing margin financing and securities lending and repurchase agreements business; and
 - Further expanding our wealth management team;
- Approximately [REDACTED] or HK\$[REDACTED] in investment management business:
 - Expanding the scale of our private equity business, including providing seed funding, and to explore investment targets with strong growth potential and underlying value; and
 - Further supporting the growth and scale of our discretionary asset management business;
- Approximately [REDACTED] or HK\$[REDACTED], in securities sales and trading business:
 - Continuing to develop the fixed income securities investment business and optimizing its leverage structure;
 - Investing greater resources in market-neutral investments and expanding arbitrage business; and
 - Further develop NEEQ market-making business;
- Approximately [REDACTED] or HK\$[REDACTED] in overseas business to strengthen our core businesses including overseas wealth management, investment management and investment banking businesses;
- Approximately [REDACTED] or HK\$[REDACTED] for capital expenditures to improve IT systems and expand our capital-light branches network; and
- Approximately [REDACTED] or HK\$[REDACTED], for working capital and other general corporate purposes.

If the [REDACTED] is fixed at HK\$[REDACTED] per H Share, being the high-end of the [REDACTED] range stated in this document and assuming that the [REDACTED] is not exercised, the net

FUTURE PLANS AND USE OF [REDACTED]

[REDACTED] will be increased by approximately HK\$[REDACTED]. If the [REDACTED] is fixed at HK\$[REDACTED] per H Share, being the low-end of the [REDACTED] range stated in this document and assuming that the [REDACTED] is not exercised, the net [REDACTED] will be reduced by approximately HK\$[REDACTED]. To the extent our net [REDACTED] are either more or less than expected, we will adjust our allocation of the net [REDACTED] for the above purposes accordingly on a pro rata basis.

The additional net [REDACTED] that we would receive if the [REDACTED] were exercised in full would be HK\$[REDACTED], after deducting the [REDACTED] commissions and other estimated expenses in connection with the [REDACTED] and assuming an [REDACTED] of HK\$[REDACTED] per H Share, being the mid-point of the [REDACTED] range stated in this document.

Additional net [REDACTED] received due to the exercise of any [REDACTED] will be used for the above purposes accordingly on a pro rata basis in the event that the [REDACTED] is exercised.

To the extent that the net [REDACTED] of the [REDACTED] are not immediately required for the aforesaid purposes and to the extent permitted by the applicable laws and regulations, we intend to use the net [REDACTED] of the [REDACTED] for short-term investment, such as liquid asset classes.

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

Undertakings to the Stock Exchange Pursuant to the Listing Rules

Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that we will not issue any shares or other securities convertible into equity securities (whether or not of a class already listed) of the Company or enter into any agreement or arrangement to issue such shares or securities at any time within six months from the [REDACTED] (whether or not such issue of shares or securities will be completed within six months from the [REDACTED]), except pursuant to the [REDACTED], the [REDACTED] or any of the circumstances prescribed by Rule 10.08 of the Listing Rules.

[REDACTED]

Undertakings Pursuant to the [REDACTED]

Undertakings by the Company

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

Hong Kong Underwriters’ Interests in the Company

[REDACTED]

Joint Sponsors’ Fee

An amount of US\$800,000 is payable by the Company as sponsor fees to each of the Joint Sponsors, totalling an amount of US\$2,400,000.

UNDERWRITING

Independence of Joint Sponsors

As of the Latest Practicable Date, Citigroup Global Markets Asia Limited held 33.33% of the equity interest of Citi Orient, thus not satisfying the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Both Goldman Sachs (Asia) L.L.C. and Nomura International (Hong Kong) Limited satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

[REDACTED]

UNDERWRITING

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

STRUCTURE OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

This document is in draft form, incomplete and subject to change and that the information must be read in conjunction with the section headed “warning” on the cover of this document.

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

HOW TO APPLY FOR [REDACTED]

[REDACTED]

Deloitte.

德勤

[Date]

The Directors

東方證券股份有限公司

Citigroup Global Markets Asia Limited

Goldman Sachs (Asia) L.L.C.

Nomura International (Hong Kong) Limited

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding 東方證券股份有限公司 (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended December 31, 2013, 2014 and 2015 (the “Relevant Periods”) (the “Financial Information”) for inclusion in the document of the Company dated [Date] (the “Document”) in connection with the initial **[REDACTED]** of H shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

On December 10, 1997, Orient Securities Limited Liability Company (東方證券有限責任公司) was established in Shanghai Municipality of the People’s Republic of China (the “PRC”) with the approval of the China Securities Regulatory Commission (the “CSRC”). On October 8, 2003, upon approval from the CSRC and the Shanghai Municipal Government, Orient Securities Limited Liability Company was converted into a joint stock limited liability company, and was renamed “東方證券股份有限公司”. On March 23, 2015, the Company listed its shares on the Shanghai Stock Exchange with the stock code of 600958.

The Company and all subsidiaries have adopted December 31, as their financial year end dates. During the Relevant Periods and as at the date of this report, the Company has direct or indirect interests in subsidiaries as set out in Note 20 to the Financial Information of this report.

The statutory consolidated financial statements of the Group prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the PRC (the “Underlying Financial Statements”) for the years ended December 31, 2013, 2014 and 2015 were audited by BDO China Shu Lun Pan Certified Public Accountants LLP. (立信會計師事務所(特殊普通合夥)) (“BDO”), a firm of certified public accountants registered in the PRC. The statutory financial statements of the subsidiaries, directly or indirectly controlled by the Company, were audited by independent auditors as set out in Note 20 to the Financial Information of this report.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, after making such adjustments as appropriate.

For the purpose of the report, we have examined the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board (the “IAASB”), and the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The directors of the Company are responsible for the preparation of the Underlying Financial Statements and the contents of the Document in which this report is included. It is our responsibility to

APPENDIX I

ACCOUNTANTS’ REPORT

compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group and of the Company as at December 31, 2013, 2014 and 2015, and of the financial performance and consolidated cash flows of the Group for each of the three years ended December 31, 2013, 2014 and 2015.

APPENDIX I

ACCOUNTANTS’ REPORT

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	NOTES	Year ended December 31,		
		2013	2014	2015
		RMB’000	RMB’000	RMB’000
Revenue				
Commission and fee income	5	1,783,796	2,459,949	6,620,956
Interest income	6	606,517	1,446,142	4,289,716
Net investment gains	7	2,149,334	3,906,270	9,341,932
Total revenue		4,539,647	7,812,361	20,252,604
Other income and gains	8	46,875	75,532	206,671
Total revenue and other income		4,586,522	7,887,893	20,459,275
Depreciation and amortization	9	(152,261)	(148,665)	(149,785)
Staff costs	10	(1,105,542)	(1,447,765)	(3,826,660)
Commission and fee expenses	11	(163,621)	(260,350)	(791,028)
Interest expenses	12	(1,261,011)	(2,209,793)	(4,548,512)
Other operating expenses	13	(821,697)	(1,018,805)	(2,080,873)
Provision for/(reversal of) impairment losses	14	(71,828)	(4,953)	373
Total expenses		(3,575,960)	(5,090,331)	(11,396,485)
Share of results of associates		123,675	136,127	436,296
Profit before income tax		1,134,237	2,933,689	9,499,086
Income tax expense	15	(151,907)	(574,987)	(2,124,916)
Profit for the year		982,330	2,358,702	7,374,170
Attributable to:				
Shareholders of the Company		1,007,422	2,341,671	7,325,225
Non-controlling interests		(25,092)	17,031	48,945
		982,330	2,358,702	7,374,170
Earnings per share attributable to shareholders of the Company (Expressed in RMB Yuan per share)				
- Basic	16	0.24	0.55	1.46

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	Year ended December 31,		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Profit for the year		982,330	2,358,702	7,374,170
Other comprehensive income/(expense) attributable to owners of the Company, net of income tax:				
Items that may be reclassified subsequently to profit or loss:				
Net fair value gains on available-for-sale financial assets	46(4)	296,282	1,216,240	1,101,732
Income tax impact		(73,371)	(313,609)	(272,979)
Share of other comprehensive income/(expense) of associates		2,960	(16,015)	11,781
Exchange differences arising on translation		(5,052)	1,993	(13,621)
Others		50	728	393
Other comprehensive income for the year, net of income tax		220,869	889,337	827,306
Total comprehensive income for the year		1,203,199	3,248,039	8,201,476
Attributable to:				
Shareholders of the Company		1,228,291	3,231,008	8,152,138
Non-controlling interests		(25,092)	17,031	49,338
		1,203,199	3,248,039	8,201,476

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at December 31,		
		2013	2014	2015
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property and equipment	17	1,465,749	1,536,867	1,718,155
Goodwill	18	32,135	32,135	32,135
Other intangible assets	19	73,178	86,188	96,549
Investments in associates	21	780,011	1,003,793	1,908,526
Available-for-sale financial assets	23	1,966,762	2,892,722	11,369,355
Held-to-maturity investments	24	1,259,208	1,247,202	293,921
Financial assets held under resale agreements	25	637,000	5,482,030	10,209,680
Deferred tax assets	26	44,648	74,054	317,448
Total non-current assets		6,258,691	12,354,991	25,945,769
Current assets				
Advances to customers	27	2,806,953	9,946,058	14,241,083
Accounts receivable	28	117,282	131,229	502,401
Other receivables and prepayments	29	1,256,545	1,982,141	4,315,193
Available-for-sale financial assets	23	28,667,097	37,539,696	48,507,365
Held-to-maturity investments	24	—	—	920,078
Financial assets held under resale agreements	25	2,157,873	8,037,221	16,288,535
Financial assets at fair value through profit or loss	30	5,116,045	7,273,646	31,870,854
Derivative financial assets	31	51,618	56,766	77,362
Deposits with exchanges and non-bank financial institutions	32	287,239	756,609	1,060,011
Clearing settlement funds	33	3,147,075	5,648,617	8,825,404
Cash and bank balances	34	10,986,047	23,803,149	55,343,507
Total current assets		54,593,774	95,175,132	181,951,793
Total assets		60,852,465	107,530,123	207,897,562
Current liabilities				
Borrowings	36	—	2,340	383,780
Due to banks and other financial institutions	37	3,815,000	6,983,000	10,200,000
Accounts payable to brokerage clients	38	10,893,673	21,783,072	43,193,275
Accrued staff costs	39	207,798	356,572	1,928,933
Other account payables, other payables and accruals	40	360,799	1,197,918	2,203,981
Current tax liabilities		60,647	272,999	1,682,468
Bonds payables	41	—	—	4,781,294
Short-term financing bills payables	42	2,500,000	6,779,791	8,396,061
Financial liabilities at fair value through profit or loss	43	1,533,053	878,236	3,147,266
Derivative financial liabilities	31	—	432	181,480
Financial assets sold under repurchase agreements	44	21,214,322	37,012,674	36,665,091
Total current liabilities		40,585,292	75,267,034	112,763,629
Net current assets		14,008,482	19,908,098	69,188,164
Total assets less current liabilities		20,267,173	32,263,089	95,133,933
Equity				
Share capital	45	4,281,743	4,281,743	5,281,743
Reserves	46	7,934,678	9,688,635	22,227,773
Retained profits	47	3,333,878	4,382,755	7,448,603
Equity attributable to shareholders of the Company		15,550,299	18,353,133	34,958,119
Non-controlling interests		227,822	272,365	417,626
Total equity		15,778,121	18,625,498	35,375,745
Non-current liabilities				
Borrowings	36	—	362,894	385,388
Financial assets sold under repurchase agreements	44	—	93,500	11,215,000
Deferred tax liabilities	26	89,333	501,363	976,606
Bonds payables	41	4,399,719	12,679,834	47,181,194
Total non-current liabilities		4,489,052	13,637,591	59,758,188
Total equity and non-current liabilities		20,267,173	32,263,089	95,133,933

APPENDIX I

ACCOUNTANTS’ REPORT

STATEMENT OF FINANCIAL POSITION

	NOTES	As at December 31,		
		2013	2014	2015
		RMB’000	RMB’000	RMB’000
Non-current assets				
Property and equipment	17	1,439,520	1,508,311	1,682,287
Goodwill	18	18,948	18,948	18,948
Other intangible assets	19	64,211	79,079	88,254
Investments in subsidiaries	20	3,096,003	3,930,263	6,250,653
Investments in associates	21	667,318	767,867	1,188,669
Available-for-sale financial assets	23	633,490	2,038,514	8,325,648
Held-to-maturity investments	24	1,259,208	1,247,202	293,921
Financial assets held under resale agreements	25	637,000	5,482,030	10,209,680
Deferred tax assets	26	32,651	27,655	187,660
Total non-current assets		7,848,349	15,099,869	28,245,720
Current assets				
Advances to customers	27	2,792,976	9,735,315	13,532,052
Accounts receivable	28	62,317	93,703	190,311
Other receivables and prepayments	29	886,157	1,241,746	1,582,326
Available-for-sale financial assets	23	28,685,519	37,050,830	46,926,696
Held-to-maturity investments	24	—	—	920,078
Financial assets held under resale agreements	25	1,688,892	7,388,074	16,155,335
Financial assets at fair value through profit or loss	30	3,323,862	4,878,869	28,095,836
Derivative financial assets	31	51,618	55,909	73,116
Deposits with exchanges and non-bank financial institutions	32	254,920	704,788	913,792
Clearing settlement funds	33	1,740,224	3,466,377	6,038,318
Cash and bank balances	34	7,804,278	18,337,300	37,920,818
Total current assets		47,290,763	82,952,911	152,348,678
Total assets		55,139,112	98,052,780	180,594,398
Current liabilities				
Due to banks and other financial institutions	37	3,815,000	6,983,000	10,200,000
Accounts payable to brokerage clients	38	7,712,097	16,328,757	26,919,127
Accrued staff costs	39	123,880	152,382	1,204,060
Other account payables, other payables and accruals	40	191,046	647,295	1,819,422
Current tax liabilities		48,934	239,748	1,516,464
Bonds payables	41	—	—	3,797,902
Short-term financing bills payables	42	2,500,000	6,809,791	7,799,271
Financial liabilities at fair value through profit or loss	43	136,170	—	2,460,558
Derivative financial liabilities	31	—	432	112,425
Financial assets sold under repurchase agreements	44	20,627,426	36,565,276	36,066,590
Total current liabilities		35,154,553	67,726,681	91,895,819
Net current assets		12,136,210	15,226,230	60,452,859
Total assets less current liabilities		19,984,559	30,326,099	88,698,579
Equity				
Share capital	45	4,281,743	4,281,743	5,281,743
Reserves	46	7,887,964	9,623,661	21,769,321
Retained profits	47	3,322,887	4,121,998	6,824,081
Total equity		15,492,594	18,027,402	33,875,145
Non-current liabilities				
Financial assets sold under repurchase agreements	44	—	73,500	11,215,000
Deferred tax liabilities	26	93,990	446,414	820,611
Bonds payables	41	4,397,975	11,778,783	42,787,823
Total non-current liabilities		4,491,965	12,298,697	54,823,434
Total equity and non-current liabilities		19,984,559	30,326,099	88,698,579

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Equity attributable to shareholders of the Company											
NOTES	Reserves										
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Translation reserve	Retained profits	Subtotal	Non-controlling interests	Total equity	
	RMB'000 (Note 45)	RMB'000 (Note 46)	RMB'000 (Note 46)	RMB'000 (Note 46)	RMB'000 (Note 46)	RMB'000 (Note 46)	RMB'000 (Note 47)	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2013	4,281,743	3,796,107	1,019,469	2,401,455	131,430	(6,596)	3,126,574	14,750,182	248,014	14,998,196	
Profit for the year	—	—	—	—	—	—	1,007,422	1,007,422	(25,092)	982,330	
Other comprehensive income/(expenses) for the year	—	—	—	—	225,921	(5,052)	—	220,869	—	220,869	
Total comprehensive income/(expenses) for the year	—	—	—	—	225,921	(5,052)	1,007,422	1,228,291	(25,092)	1,203,199	
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	4,900	4,900	
Appropriation to surplus reserve	—	—	103,833	—	—	—	(103,833)	—	—	—	
Appropriation to general reserve	—	—	—	268,111	—	—	(268,111)	—	—	—	
Dividends recognized as distribution	—	—	—	—	—	—	(428,174)	(428,174)	—	(428,174)	
At December 31, 2013 and January 1, 2014	4,281,743	3,796,107	1,123,302	2,669,566	357,351	(11,648)	3,333,878	15,550,299	227,822	15,778,121	
Profit for the year	—	—	—	—	—	—	2,341,671	2,341,671	17,031	2,358,702	
Other comprehensive income for the year	—	—	—	—	887,344	1,993	—	889,337	—	889,337	
Total comprehensive income for the year	—	—	—	—	887,344	1,993	2,341,671	3,231,008	17,031	3,248,039	
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	27,512	27,512	
Appropriation to surplus reserve	—	—	312,021	—	—	—	(312,021)	—	—	—	
Appropriation to general reserve	—	—	—	552,599	—	—	(552,599)	—	—	—	
Dividends recognized as distribution	—	—	—	—	—	—	(428,174)	(428,174)	—	(428,174)	
At December 31, 2014 and January 1, 2015	4,281,743	3,796,107	1,435,323	3,222,165	1,244,695	(9,655)	4,382,755	18,353,133	272,365	18,625,498	
Profit for the year	—	—	—	—	—	—	7,325,225	7,325,225	48,945	7,374,170	
Other comprehensive income/(expenses) for the year	—	—	—	—	840,534	(13,621)	—	826,913	393	827,306	
Total comprehensive income/(expenses) for the year	—	—	—	—	840,534	(13,621)	7,325,225	8,152,138	49,338	8,201,476	
IPO of A shares	1,000,000	9,030,000	—	—	—	—	—	10,030,000	—	10,030,000	
Costs of IPO of A shares	—	(242,526)	—	—	—	—	—	(242,526)	—	(242,526)	
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	97,680	97,680	
Appropriation to surplus reserve	—	—	1,022,675	—	—	—	(1,022,675)	—	—	—	
Appropriation to general reserve	—	—	—	1,916,266	—	—	(1,916,266)	—	—	—	
Dividends recognized as distribution	—	—	—	—	—	—	(1,320,436)	(1,320,436)	(1,757)	(1,322,193)	
Others	—	(14,190)	—	—	—	—	—	(14,190)	—	(14,190)	
At December 31, 2015	5,281,743	12,569,391	2,457,998	5,138,431	2,085,229	(23,276)	7,448,603	34,958,119	417,626	35,375,745	

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
OPERATING ACTIVITIES			
Profit before income tax	1,134,237	2,933,689	9,499,086
Adjustments for:			
Interest expenses	1,261,011	2,209,793	4,548,512
Share of results of associates	(123,675)	(136,127)	(436,296)
Depreciation and amortization	152,261	148,665	149,785
Provision for/(reversal of) impairment losses	71,828	4,953	(373)
Losses/(gains) on disposal of property and equipment and other intangible assets	706	(4,800)	(14,845)
Foreign exchange (gains)/losses	6,444	(4,099)	(69,640)
Net realised gains and income arising from available-for-sale financial assets	(1,756,528)	(2,766,175)	(5,352,693)
Interest income from held-to-maturity investments	(67,473)	(69,906)	(66,252)
Net realised gains arising from loan and receivable investments and others	—	(5,396)	(12,946)
Unrealised fair value change of financial assets at fair value through profit or loss	150,399	(309,298)	(454,432)
Unrealised fair value change of financial liabilities at fair value through profit or loss	79,434	80,637	(9,846)
Unrealised fair value change of derivative financial assets	(87,609)	(15,644)	193,413
Operating cash flows before movements in working capital	821,035	2,066,292	7,973,473
Increase in advances to customers	(1,393,119)	(7,139,854)	(4,261,924)
Increase in financial assets held under resale agreements	(2,098,571)	(10,724,378)	(12,978,964)
Increase in financial assets at fair value through profit or loss and derivative financial assets	(2,105,642)	(1,848,290)	(24,052,444)
Decrease/(increase) in deposits and reserve funds and deposits with exchanges	47,928	(469,370)	(303,402)
Increase in bank balances and clearing settlement funds restricted or held on behalf of customers	(225,218)	(11,590,003)	(23,534,003)
Increase in accounts receivable, other receivables and prepayments	(199,277)	(142,487)	(3,003,709)
Increase in other account payables, other payables and accruals	176,992	692,290	1,490,155
(Decrease)/increase in accounts payable to brokerage clients	(26,102)	10,888,681	21,379,236
Increase/(decrease) in financial liabilities at fair value through profit or loss and derivative financial liabilities	1,453,620	(735,453)	2,347,619
(Decrease)/increase in financial assets sold under repurchase agreements	(156,053)	15,891,852	10,773,917
Increase in deposits due to banks and other financial institutions	2,665,000	3,168,000	3,217,000
Cash generated from operations	(1,039,407)	57,280	(20,953,046)
Income taxes paid	(120,492)	(293,620)	(759,849)
Interest paid	(1,068,787)	(1,452,349)	(2,343,247)
NET CASH USED IN OPERATING ACTIVITIES	(2,228,686)	(1,688,689)	(24,056,142)
INVESTING ACTIVITIES			
Dividends and interest received from investments	1,421,164	1,694,138	2,109,903
Proceeds on disposal of property and equipment	1,158	70,796	71,688
Disposal of available-for-sale financial assets, held-to maturity investments, loans and advances to customers	42,360,595	63,982,526	89,747,463
Capital injection in associates	—	(122,000)	(516,910)

APPENDIX I

ACCOUNTANTS’ REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

	NOTE	Year ended December 31,		
		2013	2014	2015
		RMB’000	RMB’000	RMB’000
Purchases of available-for-sale financial assets, held-to maturity investments, loans and advances to customers		(46,091,914)	(71,954,873)	(104,295,372)
Purchases of property and equipment and other intangible assets		(978,495)	(302,520)	(441,552)
Proceeds from other investment activities		—	—	27,733
NET CASH USED IN INVESTING ACTIVITIES		(3,287,492)	(6,631,933)	(13,297,047)
FINANCING ACTIVITIES				
Capital injection from non-controlling shareholders		4,900	27,512	97,680
Proceeds from A shares issued		—	—	10,030,000
Net proceeds from bonds and short-term financing bills payables issued		6,900,000	12,565,129	40,654,412
Net proceeds from borrowings		—	366,706	380,320
Dividends paid to shareholders		(418,784)	(419,984)	(1,324,411)
Transaction costs paid on issue of A shares		—	—	(242,526)
Interest of bonds and short-term financing bills payables paid		(77,270)	(483,138)	(1,099,558)
Interest of borrowings paid		—	(12,431)	(14,675)
Payments on other financing activities		(1,500)	(605)	(683)
NET CASH FROM FINANCING ACTIVITIES		6,407,346	12,043,189	48,480,559
NET INCREASE IN CASH AND CASH EQUIVALENTS		891,168	3,722,567	11,127,370
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,093,218	2,972,921	6,701,562
Effect of foreign exchange rate changes		(11,465)	6,074	55,772
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	35	2,972,921	6,701,562	17,884,704

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

東方證券股份有限公司, formerly known as the Orient Securities Limited Liability Company (東方證券有限責任公司), a limited liability company was established on December 10, 1997. On October 8, 2003, upon approval from the China Securities Regulatory Commission (“CSRC”) and the Shanghai Municipal Government, Orient Securities Limited Liability Company was converted into a joint stock limited liability company, and was renamed as 東方證券股份有限公司. On March 23, 2015, the Company became listed on the Shanghai Stock Exchange with the stock code of 600958.

The registered office of the Company is located at 22F, 23F and 25-29F, Building 2, No. 318, South Zhongshan Road, Shanghai, the People’s Republic of China (“PRC”).

The Company and its subsidiaries (the “Group”) are principally engaged in securities and futures brokerage, margin financing and securities lending, securities investment advisory, securities investment and trading, asset management, agency sale of financial products, security underwriting and sponsorship, and other business activities approved by CSRC.

The Financial Information is presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Group has consistently applied International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and the related Interpretation (“IFRICs”) (herein collectively referred to as the “IFRSs”) which are effective for the accounting period beginning on January 1, 2015 throughout the Relevant Periods.

In addition, the Group has early applied the following amendments:

Amendments to IAS 27 Equity method in separate financial statements

The Group has early adopted the amendments to IAS 27 *Equity Method* in Separate Financial Statements issued by the International Accounting Standards Board (the “IASB”) in August 2014 in advance of its effective date, January 1, 2016. The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost
- in accordance with IFRS 9 Financial Instruments (or IAS 39 “Financial instruments: recognition and measurement for entities” that have not yet adopted IFRS 9), or
- using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The Company has applied the equity method to account for investments in associate in its separate financial statements.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS—continued

Except amendments to IAS 27, the Group has not early applied the following new and revised IFRSs which are relevant to the Group that have been issued but are not yet effective.

IFRS 9	Financial instruments ¹
IFRS 15	Revenue from contracts with customers ¹
IFRS 16	Leases ²
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations ³
Amendments to IAS 1	Disclosure initiative ³
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation ³
Amendments to IFRS	Annual improvements to IFRS 2012-2014 cycle ³
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants ³
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁴
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception ³
Amendments to IAS 7	Disclosure initiative ⁵
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses ⁵

1 Effective for annual periods beginning on or after January 1, 2018

2 Effective for annual periods beginning on or after January 1, 2019

3 Effective for annual periods beginning on or after January 1, 2016

4 Effective for annual periods beginning on or after a date to be determined

5 Effective for annual periods beginning on or after January 1, 2017

The board of directors of the Company is in the process of assessing the impact of the new standards and amendments on the Financial Information. So far it has concluded that the adoption of them is unlikely to have significant impact on the Financial Information except for the following:

IFRS 9 Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognized financial assets that are within the scope of IAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortized cost or fair value. Specifically, 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

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued**2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS—continued****IFRS 9 Financial instruments—continued**

amortized cost at the end of subsequent accounting periods. 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 of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 in the future may affect the classification and measurement of the Group’s financial assets and financial liabilities and it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS—continued****IFRS 15 Revenue from contracts with customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize 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-step approach to revenue recognition:

- Step 1: Identify the contract (s) with a 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: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have impact on the amounts reported and disclosures made in the Group’s consolidated financial statements and it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16 Leases

IFRS 16 *Leases* was issued by IASB in January 2016. It will be effective for annual periods beginning on or after January 1, 2019 and will supersede IAS 17 *Leases*. This new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A lessee is required to recognize a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 *Property, Plant and Equipment*, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued**2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS—continued****IFRS 16 Leases—continued**

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosure required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purpose in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING POLICIES—continued

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its 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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in an investee are sufficient to give it power, including:

- the size of the Group’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or losses and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Basis of consolidation—continued***Changes in the Group’s ownership interests in existing subsidiaries*

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement*, when applicable, the cost on initial recognition of an investment in an associate.

The Group served as the manager of collective asset management schemes and funds. These collective asset management schemes and funds invest mainly in equities, debt securities and cash and cash equivalents. The Group’s percentage of ownership in these structured entities can fluctuate from day to day according to the Group’s and third-party’s participation in them. Where the Group is deemed to control such collective asset management schemes and funds, with control determined based on an analysis of the guidance in IFRS 10 *Consolidated financial statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes and funds for cash. These are presented as “Third-party interests in consolidated asset management schemes and funds” within financial liabilities designated at fair value through profit or loss in the consolidated statement of financial position.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former shareholders of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Business combinations—continued**

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income taxes* and IAS 19 *Employee benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Business combinations—continued**

that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses, if any.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group’s policy for goodwill arising on the acquisition of associates is described below.

NOTES TO THE FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING POLICIES—continued

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, investments in an associate are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING POLICIES—continued

Investments in associates—continued

directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognized in the Group’s consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Property and equipment

Property and equipment including leasehold land and buildings (classified as finance leases) for use in the supply of services, or for administrative purposes (other than construction in progress as described below) are stated in the statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property and equipment, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group’s accounting policy. Such assets are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING POLICIES—continued

Property and equipment—continued

The estimated residual value rates and useful lives of each class of property and equipment, other than construction in progress, are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	3%	Over the shorter of the lease term and estimated useful life of buildings of 30 years
Electronic and communication equipment	3%	3 - 10 years
Motor vehicles	3%	6 years
Office equipment	3%	5 years
Leasehold improvements	nil	Over the lease term

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives (i.e. trading rights) that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets other than goodwill and financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Impairment of tangible and intangible assets other than goodwill and financial assets—continued**

have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Leasing—continued***The Group as lessee—continued*

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group’s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

3. SIGNIFICANT ACCOUNTING POLICIES—continued

Foreign currencies—continued

of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Employee benefits—continued***Short-term employee benefits*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Social welfare

Social welfare expenditure refers to payments for employees’ social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees’ salaries and the contributions are recognized in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group’s liabilities in respect of these funds are limited to the contribution payable in the relevant period.

Annuity scheme

The Group also sets up annuity scheme for qualified employees. Annuity contributions are accrued based on a certain percentage of the participants’ total salary when employees have rendered service entitling them to the contributions. The contribution is recognized in profit or loss when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the statement of profit or loss because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Taxation—continued**

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from 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.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, available-for-sale financial assets and held-to-maturity investments. The classification depends on the nature and purpose of the financial

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Financial instruments—continued***Financial assets—continued*

assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL, of which interest income is included in net investment gains.

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition:

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial assets forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of contract containing one or more embedded derivatives, and IAS39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Financial instruments—continued***Financial assets—continued**Financial assets at FVTPL—continued*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial assets. Fair value is determined in the manner described in Note 58.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including advances to customers, accounts receivable, other receivables, financial assets held under resale agreements, deposits with exchanges and non-bank financial institutions, clearing settlement funds, cash and bank balances are measured at amortized cost using the effective interest method, less any identified impairment losses (see the accounting policy on impairment loss on financial assets below).

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the effect of discounting would be immaterial.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity other than:

- those that the Group upon initial recognition designates as fair value through profit or loss;
- those that the Group designates as available-for-sale; and
- those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any identified impairment losses (see the accounting policy on impairment loss on financial assets below).

Available-for-sale (“AFS”) financial assets

AFS financial assets are non-derivatives that are either designated or not classified as financial assets as at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment loss on financial assets below).

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Financial instruments—continued***Financial assets—continued**Available-for-sale (“AFS”) financial assets—continued*

Dividends on AFS equity investments are recognized in profit or loss when the Group’s right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

For AFS equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as advances to customers, accounts receivable and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Financial instruments—continued***Financial assets—continued**Impairment of financial assets—continued*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to customers, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When an advance to customers, an account receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group’s financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Financial instruments—continued***Financial liabilities and equity instruments—continued*Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is: (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid and dividends paid. Fair value is determined in the manner described in Note 58.

Other financial liabilities

Other financial liabilities including borrowings, short-term financing bills payables, due to banks and other financial institutions, accounts payable to brokerage clients, other payables and accruals, bonds payable and financial assets sold under repurchase agreements are subsequently measured at amortized cost, using the effective interest method.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Financial instruments—continued***Financial liabilities and equity instruments—continued**Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net investment gains or losses.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and price risk, including interest rate swaps and stock index futures. Further details of derivatives financial instruments are disclosed in Note 31.

Derivatives are initially recognized at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics 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 recognized in profit or loss.

Financial assets sold under repurchase agreements and financial assets held under resale agreements

Financial assets sold subject to repurchase agreements, which do not result in derecognition of the financial assets, are continued to be recorded as financial assets at FVTPL, loans and receivables, held-to-maturity investments or “AFS financial assets” as appropriate. The corresponding liability is included in “financial assets sold under repurchase agreements”. Consideration paid for financial assets held under agreements to resell are recorded as “financial assets held under resale agreements”. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Securities lending

The Group lends securities to clients and the cash collateral balances required under the securities lending agreements and the interest arisen from the cash collateral are included in “accounts payable to brokerage clients”. For those securities held by the Group that are lent to clients, they are not derecognized and are continued to be recorded as AFS financial assets.

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Financial instruments—continued***Derecognition*

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

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety, (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business. Revenue is recognized 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 for broking business is recorded as income on a trade date basis, and service fees arising from broking business are recognized when services are rendered;
- (ii) Underwriting and sponsors fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**3. SIGNIFICANT ACCOUNTING POLICIES—continued****Revenue recognition—continued**

- (iii) Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a timely basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition;
- (iv) Consultancy and financial advisory fee income is recognized when the relevant transactions have been arranged or the relevant services have been rendered;
- (v) Asset and fund management fee income is recognized when management services are provided;
- (vi) Dividend income from investments is recognized when the shareholder’s right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably); and
- (vii) Rental income from operating leases is recognized on a straight-line basis over the term of relevant lease.

Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and the amount of the obligation can be reliably measured.

The amount recognized as provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENT

In the application of the Group’s accounting policies, which are described in Note 3, the directors of the Company are 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.

NOTES TO THE FINANCIAL INFORMATION—continued

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENT—continued

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of advances to customers, accounts receivable and other receivables

The Group reviews its advances to customers and accounts receivable to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized 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 that will have a measurable decrease in the estimated future cash flows from advances to customer and accounts receivable. Moreover, the Group also reviews the value of the securities collateral received from the customers in determining the impairment. The Group reviewed the methodology and assumptions used for estimating both the amount and timing of future cash flows regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

Impairment of available-for-sale financial assets

The determination of whether an available-for-sale investment is impaired requires significant judgment. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgment is also required to determine whether historical performance remains representative of current and future economic conditions.

NOTES TO THE FINANCIAL INFORMATION—continued

4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGMENT—continued

Fair value of available-for-sale financial assets with restriction on disposal

For available-for-sale financial assets which are subject to legally enforceable restriction that prevents the holders from disposing them within the specified period, the fair value of these securities are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of these instruments include some assumptions not supported by observable market prices or rates.

Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

The realisation of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognized in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the tax losses and deductible temporary differences are disclosed in Note 15.

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 sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor’s returns.

An investor’s initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g. a change in the investee’s returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed above or changes the overall relationship between a principal and an agent. At the end of each reporting period, the Group assesses the variable returns arising from other equities and uses plenty of judgments, in combination with historical exposure to variable returns, to determine the consolidation scope.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

5. COMMISSION AND FEE INCOME

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Commission on securities dealing, broking and handling fee income	1,181,655	1,544,522	4,069,843
Underwriting, sponsors and financial advisory fee income	228,961	460,399	899,461
Commission on futures and options contracts dealing, broking and handling fee income	130,149	125,838	181,801
Asset management fee income	214,398	281,707	1,395,985
Consultancy fee income	28,633	47,483	73,866
	<u>1,783,796</u>	<u>2,459,949</u>	<u>6,620,956</u>

6. INTEREST INCOME

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Advances to customers and securities lending	193,589	395,677	1,429,684
Financial assets held under resale agreements	89,026	634,285	1,715,655
Deposits with exchanges and non-bank financial institutions and bank balances	323,402	407,732	1,053,186
Others	500	8,448	91,191
	<u>606,517</u>	<u>1,446,142</u>	<u>4,289,716</u>

7. NET INVESTMENT GAINS

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Net realised gains from disposal of available-for sale financial assets	282,770	876,425	3,186,214
Dividend income and interest income from available-for-sale financial assets	1,473,758	1,889,750	2,166,479
Net realised (losses)/gains from disposal of financial assets at fair value through profit or loss	(258,396)	403,965	2,023,823
Dividend income and interest income from financial assets at fair value through profit or loss	533,397	551,684	1,618,023
Net realised gains arising from financial liabilities at fair value through profit or loss	428	82	1,496
Interest income from held-to-maturity investments	67,473	69,906	66,252
Net realised gains/(losses) arising from derivative financial instruments	192,128	(135,243)	(4,166)
Unrealised fair value change of financial assets at fair value through profit or loss	(150,399)	309,298	454,432
Unrealised fair value change of financial liabilities at fair value through profit or loss	(79,434)	(80,637)	9,846
Unrealised fair value change of derivative financial instruments	87,609	15,644	(193,413)
Others	—	5,396	12,946
	<u>2,149,334</u>	<u>3,906,270</u>	<u>9,341,932</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

8. OTHER INCOME AND GAINS

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Foreign exchange (losses)/gains	(6,444)	4,099	69,640
Rental income	11,328	12,058	10,048
Government grants (Note)	41,451	47,721	103,309
(Losses)/gains on disposals of property and equipment	(706)	4,800	14,845
Others	1,246	6,854	8,829
	<u>46,875</u>	<u>75,532</u>	<u>206,671</u>

Note: The government grants were received unconditionally from the local governments to support operations on certain purposes.

9. DEPRECIATION AND AMORTIZATION

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Depreciation of property and equipment	126,052	119,213	110,367
Amortization of other intangible assets	26,209	29,452	39,418
	<u>152,261</u>	<u>148,665</u>	<u>149,785</u>

10. STAFF COSTS

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Salaries, bonus and allowances	897,372	1,215,605	3,527,483
Social welfare	188,998	200,246	251,823
Contributions to annuity schemes	19,172	31,914	47,354
	<u>1,105,542</u>	<u>1,447,765</u>	<u>3,826,660</u>

Note: The domestic employees of the Group in the PRC participate in state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group also operates a Mandatory Provident Fund Scheme for all qualified employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. Apart from participating in various defined contribution retirement benefit plans organized by municipal and provincial governments in Mainland China, the Group is also required to make monthly contributions to annuity plans at fixed rates of the employees’ salary and bonus for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group’s contributions to these pension plans are charged to profit or loss in the period to which they relate.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

11. COMMISSION AND FEE EXPENSES

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Securities and futures dealing and broking expenses	162,807	247,585	786,350
Underwriting, sponsors and financial advisory fee expenses	814	12,765	4,678
	<u>163,621</u>	<u>260,350</u>	<u>791,028</u>

12. INTEREST EXPENSES

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Interest on liabilities wholly repayable within five years:			
Accounts payable to brokerage clients	35,748	37,541	116,697
Financial assets sold under repurchase agreements	898,643	1,298,039	2,109,476
Borrowings	—	14,982	15,518
Due to banks and other financial institutions	172,499	252,404	398,198
Short-term financing bills payables	102,996	224,042	183,931
Bonds payables	51,066	379,569	1,696,379
Others	59	3,216	28,313
	<u>1,261,011</u>	<u>2,209,793</u>	<u>4,548,512</u>

13. OTHER OPERATING EXPENSES

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Advisory expenses	44,052	58,692	101,959
Auditor’s remuneration	2,923	4,493	6,055
Business travel expenses	52,434	61,689	71,242
Communication expenses	66,036	70,728	85,875
Electronic equipment operating expenses	58,375	57,143	90,247
Entertainment expenses	42,300	44,258	60,240
Administrative expenses	98,533	94,448	179,969
Operating lease rentals in respect of rented premises	175,813	184,622	209,910
Products distribution expenses	43,425	53,878	283,666
Securities and futures investor protection funds	18,655	33,201	94,102
Stock exchange management fees	17,143	20,880	39,407
Sundry expenses	54,744	61,724	20,659
Business tax and surcharges	144,287	262,542	818,247
Donation	1,364	10,213	12,624
Others	1,613	294	6,671
	<u>821,697</u>	<u>1,018,805</u>	<u>2,080,873</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

14. PROVISION FOR/(REVERSAL OF) IMPAIRMENT LOSSES

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Provision for/(reversal of) impairment loss in respect of accounts receivable and other receivables	14,509	1,963	(3,375)
Provision for impairment loss in respect of available-for-sale financial assets	57,319	2,990	3,002
	<u>71,828</u>	<u>4,953</u>	<u>(373)</u>

15. INCOME TAX EXPENSE

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Current tax:			
PRC Enterprise Income Tax	223,966	510,086	2,191,501
Hong Kong Profits Tax	—	—	3,851
	<u>223,966</u>	<u>510,086</u>	<u>2,195,352</u>
Adjustments in respect of current income tax in relation to prior years:			
PRC Enterprise Income Tax	(33,517)	(4,114)	(29,306)
Deferred tax	(38,542)	69,015	(41,130)
	<u>151,907</u>	<u>574,987</u>	<u>2,124,916</u>

Under the Enterprise Income Tax of the PRC (the “EIT Law”) and the Implementation Regulation of the EIT Law, the tax rate of the Company and the Group’s PRC subsidiaries is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods.

The income tax expense for the year can be reconciled to the profit before income tax as follows:

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Profit before income tax	1,134,237	2,933,689	9,499,086
Tax at the statutory tax rate of 25%	283,559	733,422	2,374,771
Tax effect of share of results of associates	(30,919)	(34,032)	(109,074)
Adjustments for prior years	(33,517)	(4,114)	(29,306)
Tax effect of expenses not deductible for tax purpose	24,834	32,914	122,194
Tax effect of income not taxable for tax purpose (Note)	(116,793)	(142,394)	(256,854)
Tax effect of tax losses not recognized	24,743	10,659	25,191
Utilization of tax losses previously not recognized	—	(21,468)	(23)
Effect of different tax rates of subsidiaries operating in other jurisdictions	—	—	(1,983)
Income tax expense for the year	<u>151,907</u>	<u>574,987</u>	<u>2,124,916</u>

Note: Income not taxable for tax purpose mainly includes dividends from equity investments, interest income from treasure bonds etc.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

15. INCOME TAX EXPENSE—continued

The Group has estimated unutilized tax losses of approximately RMB155 million, RMB134 million and RMB286 million as at December 31, 2013, 2014 and 2015, respectively, available for offset against future profits. No deferred tax assets has been recognized in respect of estimated tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward for five years or indefinitely.

16. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to shareholders of the Company is as follows:

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share:			
Profit for the year attributable to shareholders of the Company	1,007,422	2,341,671	7,325,225
Number of shares:			
Weighted average number of ordinary shares in issue (in thousand)	4,281,743	4,281,743	5,031,743
Basic earnings per share (RMB Yuan)	0.24	0.55	1.46

For the years ended December 31, 2013, 2014 and 2015, there were no potential ordinary shares in issue.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

17. PROPERTY AND EQUIPMENT

GROUP

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
As at January 1, 2013 ...	392,893	421,130	25,699	63,541	222,770	26,869	1,152,902
Additions	84	23,299	1,201	2,247	32,217	884,078	943,126
Disposals	—	(20,063)	(493)	(3,053)	(14,073)	(27,077)	(64,759)
Transfer during the year	—	17,004	—	6,493	—	(23,497)	—
Exchange difference	—	(94)	—	(15)	—	—	(109)
As at December 31, 2013	<u>392,977</u>	<u>441,276</u>	<u>26,407</u>	<u>69,213</u>	<u>240,914</u>	<u>860,373</u>	<u>2,031,160</u>
ACCUMULATED DEPRECIATION							
As at January 1, 2013 ...	21,839	295,406	16,273	27,637	114,971	—	476,126
Charge for the year	12,724	58,614	3,191	10,143	41,380	—	126,052
Eliminated on disposals	—	(19,213)	(478)	(2,936)	(14,073)	—	(36,700)
Exchange difference	—	(59)	—	(8)	—	—	(67)
As at December 31, 2013	<u>34,563</u>	<u>334,748</u>	<u>18,986</u>	<u>34,836</u>	<u>142,278</u>	<u>—</u>	<u>565,411</u>
CARRYING VALUES							
As at December 31, 2013	<u>358,414</u>	<u>106,528</u>	<u>7,421</u>	<u>34,377</u>	<u>98,636</u>	<u>860,373</u>	<u>1,465,749</u>
COST							
As at January 1, 2014 ...	392,977	441,276	26,407	69,213	240,914	860,373	2,031,160
Additions	—	26,444	2,746	2,946	30,370	192,054	254,560
Disposals	(34,843)	(15,819)	(2,069)	(6,050)	(23,128)	(29,155)	(111,064)
Transfer during the year	—	11,039	1,866	6,247	—	(19,152)	—
Exchange difference	—	12	—	1	—	—	13
As at December 31, 2014	<u>358,134</u>	<u>462,952</u>	<u>28,950</u>	<u>72,357</u>	<u>248,156</u>	<u>1,004,120</u>	<u>2,174,669</u>
ACCUMULATED DEPRECIATION							
As at January 1, 2014 ...	34,563	334,748	18,986	34,836	142,278	—	565,411
Charge for the year	12,725	48,067	2,472	10,511	45,438	—	119,213
Eliminated on disposals	(2,722)	(15,113)	(2,006)	(3,857)	(23,128)	—	(46,826)
Exchange difference	—	4	—	—	—	—	4
As at December 31, 2014	<u>44,566</u>	<u>367,706</u>	<u>19,452</u>	<u>41,490</u>	<u>164,588</u>	<u>—</u>	<u>637,802</u>
CARRYING VALUES							
As at December 31, 2014	<u>313,568</u>	<u>95,246</u>	<u>9,498</u>	<u>30,867</u>	<u>83,568</u>	<u>1,004,120</u>	<u>1,536,867</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

17. PROPERTY AND EQUIPMENT—continued

GROUP—continued

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
As at January 1, 2015 ...	358,134	462,952	28,950	72,357	248,156	1,004,120	2,174,669
Additions	—	51,982	2,563	3,579	33,813	258,115	350,052
Disposals	(35,858)	(13,534)	(2,159)	(1,541)	(353)	(25,249)	(78,694)
Transfer during the year	—	14,271	656	1,923	—	(16,850)	—
Exchange difference	—	376	—	37	—	—	413
As at December 31, 2015	322,276	516,047	30,010	76,355	281,616	1,220,136	2,446,440
ACCUMULATED DEPRECIATION							
As at January 1, 2015 ...	44,566	367,706	19,452	41,490	164,588	—	637,802
Charge for the year	11,017	43,708	2,831	10,287	42,524	—	110,367
Eliminated on disposals	(3,890)	(13,010)	(1,951)	(1,270)	—	—	(20,121)
Exchange difference	—	207	—	30	—	—	237
As at December 31, 2015	51,693	398,611	20,332	50,537	207,112	—	728,285
CARRYING VALUES							
As at December 31, 2015	270,583	117,436	9,678	25,818	74,504	1,220,136	1,718,155

COMPANY

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
As at January 1, 2013 ...	392,893	404,511	24,777	59,051	214,797	22,009	1,118,038
Additions	84	16,006	957	1,439	25,260	873,825	917,571
Disposals	—	(19,861)	(493)	(2,928)	(12,593)	(16,868)	(52,743)
Transfer during the year	—	15,206	—	6,447	—	(21,653)	—
As at December 31, 2013	392,977	415,862	25,241	64,009	227,464	857,313	1,982,866
ACCUMULATED DEPRECIATION							
As at January 1, 2013 ...	21,839	287,843	15,825	26,483	109,661	—	461,651
Charge for the year	12,724	53,250	3,026	9,238	38,408	—	116,646
Eliminated on disposals	—	(19,037)	(478)	(2,843)	(12,593)	—	(34,951)
As at December 31, 2013	34,563	322,056	18,373	32,878	135,476	—	543,346
CARRYING VALUES							
As at December 31, 2013	358,414	93,806	6,868	31,131	91,988	857,313	1,439,520

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

17. PROPERTY AND EQUIPMENT—continued

COMPANY—continued

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Leasehold improvements	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
COST							
As at January 1, 2014	392,977	415,862	25,241	64,009	227,464	857,313	1,982,866
Additions	—	19,935	2,563	1,791	24,981	185,766	235,036
Disposals	(34,843)	(15,359)	(2,069)	(5,950)	(23,128)	(24,021)	(105,370)
Transfer during the year . . .	—	10,883	1,866	6,077	—	(18,826)	—
As at December 31, 2014	<u>358,134</u>	<u>431,321</u>	<u>27,601</u>	<u>65,927</u>	<u>229,317</u>	<u>1,000,232</u>	<u>2,112,532</u>
ACCUMULATED DEPRECIATION							
As at January 1, 2014	34,563	322,056	18,373	32,878	135,476	—	543,346
Charge for the year	12,725	41,396	2,346	9,422	41,329	—	107,218
Eliminated on disposals . . .	(2,722)	(14,706)	(2,006)	(3,781)	(23,128)	—	(46,343)
As at December 31, 2014	<u>44,566</u>	<u>348,746</u>	<u>18,713</u>	<u>38,519</u>	<u>153,677</u>	<u>—</u>	<u>604,221</u>
CARRYING VALUES							
As at December 31, 2014	<u>313,568</u>	<u>82,575</u>	<u>8,888</u>	<u>27,408</u>	<u>75,640</u>	<u>1,000,232</u>	<u>1,508,311</u>
COST							
As at January 1, 2015	358,134	431,321	27,601	65,927	229,317	1,000,232	2,112,532
Additions	—	42,910	2,253	2,198	27,915	247,062	322,338
Disposals	(35,858)	(12,550)	(1,976)	(1,541)	(118)	(18,022)	(70,065)
Transfer during the year . . .	—	13,858	656	1,923	—	(16,437)	—
As at December 31, 2015	<u>322,276</u>	<u>475,539</u>	<u>28,534</u>	<u>68,507</u>	<u>257,114</u>	<u>1,212,835</u>	<u>2,364,805</u>
ACCUMULATED DEPRECIATION							
As at January 1, 2015	44,566	348,746	18,713	38,519	153,677	—	604,221
Charge for the year	11,017	36,865	2,685	9,039	37,850	—	97,456
Eliminated on disposals . . .	(3,890)	(12,082)	(1,917)	(1,270)	—	—	(19,159)
As at December 31, 2015	<u>51,693</u>	<u>373,529</u>	<u>19,481</u>	<u>46,288</u>	<u>191,527</u>	<u>—</u>	<u>682,518</u>
CARRYING VALUES							
As at December 31, 2015	<u>270,583</u>	<u>102,010</u>	<u>9,053</u>	<u>22,219</u>	<u>65,587</u>	<u>1,212,835</u>	<u>1,682,287</u>

The carrying amount of the Group’s and the Company’s property and equipment included the leasehold interest in land as the leasehold payments cannot be allocated reliably between the land and building elements, as such the entire lease is classified as finance lease and accounted for as property and equipment.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

18. GOODWILL

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated into two individual cash generating units (CGUs), including securities brokerage branches acquired by the Company (“Unit A”) and Shanghai Orient Securities Futures Co., Ltd. acquired by the Company (“Unit B”). The carrying amounts of goodwill as at December 31, 2013, 2014 and 2015 allocated to these units are as follows:

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
<u>Cost and carrying value</u>			
Unit A—securities brokerage branches	18,948	18,948	18,948
Unit B—Shanghai Orient Securities Futures Co., Ltd.	13,187	13,187	13,187
	<u>32,135</u>	<u>32,135</u>	<u>32,135</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
<u>Cost and carrying value</u>			
Unit A—securities brokerage branches	<u>18,948</u>	<u>18,948</u>	<u>18,948</u>

Unit A is the securities brokerage CGU acquired, and the acquisition cost exceeds the fair value of net identifiable assets. As at December 31, 2013, 2014 and 2015, management of the Group determined that there was no impairment of the CGU as the recoverable amount of the CGU exceeded its carrying amount.

Unit B is Shanghai Orient Securities Futures Co., Ltd., the futures brokerage and investment advisory CGU acquired by the Company. As at December 31, 2013, 2014 and 2015, management of the Group determined that there was no impairment of the CGU as the recoverable amount of the CGU exceeded its carrying amount.

The recoverable amount of Unit A and Unit B have been determined on the basis of value in use calculation. The calculation used cash flow projections based on financial budgets approved by management. Based on the units’ past performance and management’s expectations for the market development, management believes that it’s unlikely the carrying amount of the CGU to exceed its recoverable amount.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

19. OTHER INTANGIBLE ASSETS

GROUP

	<u>Trading rights</u>	<u>Computer software</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
COST			
As at January 1, 2013	61,053	98,122	159,175
Additions	—	38,393	38,393
Exchange difference	—	(48)	(48)
As at December 31, 2013	<u>61,053</u>	<u>136,467</u>	<u>197,520</u>
ACCUMULATED AMORTIZATION			
As at January 1, 2013	39,810	58,347	98,157
Charge for the year	—	26,209	26,209
Exchange difference	—	(24)	(24)
As at December 31, 2013	<u>39,810</u>	<u>84,532</u>	<u>124,342</u>
CARRYING VALUES			
As at December 31, 2013	<u>21,243</u>	<u>51,935</u>	<u>73,178</u>
COST			
As at January 1, 2014	61,053	136,467	197,520
Additions	500	41,953	42,453
Exchange difference	—	9	9
As at December 31, 2014	<u>61,553</u>	<u>178,429</u>	<u>239,982</u>
ACCUMULATED AMORTIZATION			
As at January 1, 2014	39,810	84,532	124,342
Charge for the year	—	29,452	29,452
Exchange difference	—	—	—
As at December 31, 2014	<u>39,810</u>	<u>113,984</u>	<u>153,794</u>
CARRYING VALUES			
As at December 31, 2014	<u>21,743</u>	<u>64,445</u>	<u>86,188</u>
COST			
As at January 1, 2015	61,553	178,429	239,982
Additions	—	49,749	49,749
Exchange difference	—	186	186
As at December 31, 2015	<u>61,553</u>	<u>228,364</u>	<u>289,917</u>
ACCUMULATED AMORTIZATION			
As at January 1, 2015	39,810	113,984	153,794
Charge for the year	—	39,418	39,418
Exchange difference	—	156	156
As at December 31, 2015	<u>39,810</u>	<u>153,558</u>	<u>193,368</u>
CARRYING VALUES			
As at December 31, 2015	<u>21,743</u>	<u>74,806</u>	<u>96,549</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

19. OTHER INTANGIBLE ASSETS—continued

COMPANY

	Trading rights	Computer software	Total
	RMB’000	RMB’000	RMB’000
COST			
As at January 1, 2013	61,053	86,973	148,026
Additions	—	33,621	33,621
As at December 31, 2013	61,053	120,594	181,647
ACCUMULATED AMORTIZATION			
As at January 1, 2013	39,810	55,548	95,358
Charge for the year	—	22,078	22,078
As at December 31, 2013	39,810	77,626	117,436
CARRYING VALUES			
As at December 31, 2013	21,243	42,968	64,211
COST			
As at January 1, 2014	61,053	120,594	181,647
Additions	500	40,253	40,753
As at December 31, 2014	61,553	160,847	222,400
ACCUMULATED AMORTIZATION			
As at January 1, 2014	39,810	77,626	117,436
Charge for the year	—	25,885	25,885
As at December 31, 2014	39,810	103,511	143,321
CARRYING VALUES			
As at December 31, 2014	21,743	57,336	79,079
COST			
As at January 1, 2015	61,553	160,847	222,400
Additions	—	43,571	43,571
As at December 31, 2015	61,553	204,418	265,971
ACCUMULATED AMORTIZATION			
As at January 1, 2015	39,810	103,511	143,321
Charge for the year	—	34,396	34,396
As at December 31, 2015	39,810	137,907	177,717
CARRYING VALUES			
As at December 31, 2015	21,743	66,511	88,254

Trading rights mainly comprise the trading rights in the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the National Equities Exchange and Quotations, where the Group is allowed to trade securities.

Impairment Testing On Trading Rights with Indefinite Useful Lives

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortized until their useful life is determined to be finite. Instead, they will be tested for impairment annually, or whenever there is an indication that they may be impaired. The respective recoverable amounts of the cash generating unit relating to brokerage business whereby these trading

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

19. OTHER INTANGIBLE ASSETS—continued

Impairment Testing On Trading Rights with Indefinite Useful Lives—continued

rights are allocated to, using a value in use calculation, exceed the carrying amounts. Accordingly, the management of the Group determined that there was no impairment of the trading rights as at December 31, 2013, 2014 and 2015.

20. INVESTMENTS IN SUBSIDIARIES

COMPANY

Investment costs and balances with subsidiaries:

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	3,096,003	3,930,263	6,250,653
Less: allowance for impairment losses	—	—	—
	<u>3,096,003</u>	<u>3,930,263</u>	<u>6,250,653</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

20. INVESTMENTS IN SUBSIDIARIES—continued

At the end of each reporting period, the Company has the following subsidiaries comprising the Group:

Name of subsidiary	Place and date of Incorporation/ establishment	Equity interest held by the Group			At date of this report	Registered capital as at December 31, 2015	Principal activities	Auditors GAAP
		2013	2014	2015				
上海東證期貨有限公司 Shanghai Orient Securities Futures Co., Ltd.* ⁽¹⁾	PRC December 8, 1995	100.00%	100.00%	100.00%		RMB 1,000,000,000	Commodity futures brokerage, Financial futures brokerage, Futures investment advisory	BDO PRC GAAP ⁽²⁾
上海東群投資管理有限公司 Shanghai Dongqi Investment Management Co., Ltd.*	PRC November 18, 2013	—	100.00%	100.00%		RMB 100,000,000	Equity investment, Investment management, Asset management	BDO PRC GAAP ⁽²⁾
東證潤和資產管理有限公司 Orient Runhe Asset Management Co., Ltd.*	PRC September 5, 2014	N/A	100.00%	100.00%		RMB 200,000,000	Equity investment, Investment management, Asset management	BDO PRC GAAP ⁽²⁾
上海東方證券資產管理有限公司 Orient Securities Asset Management Co., Ltd.* ⁽¹⁾	PRC June 8, 2010	100.00%	100.00%	100.00%		RMB 300,000,000	Securities asset management, Securities investment, Fund management	BDO PRC GAAP ⁽²⁾
上海東方證券資本投資有限公司 Orient Securities Capital Co., Ltd.* ⁽¹⁾	PRC February 8, 2010	100.00%	100.00%	100.00%		RMB 2,500,000,000	Private equity investment, Bond investment, and related investment advisory	BDO PRC GAAP ⁽²⁾
杭州東方銀帝投資管理有限公司 Hangzhou Orient Yindi Investment Management Co., Ltd.*	PRC February 26, 2013	51.00%	51.00%	51.00%		RMB 20,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾
東方睿德(上海)投資管理有限公司 Orient Ruide (Shanghai) Investment Management Co., Ltd.*	PRC August 7, 2014	N/A	100.00%	100.00%		RMB 570,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾
上海東方睿德股權投資基金有限公司 Shanghai Orient Ruide Equity Investment Funds Co., Ltd.*	PRC September 25, 2014	N/A	—	100.00%		RMB 1,000,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾
東方睿義(上海)投資管理有限公司 Orient Ruiyi (Shanghai) Investment Management Co., Ltd.* ⁽⁴⁾	PRC August 12, 2015	N/A	N/A	100.00%		RMB 190,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾
東方嘉實(上海)投資管理有限公司 Orient Jiashi (Shanghai) Investment Management Co., Ltd.* ⁽⁴⁾	PRC March 26, 2015	N/A	N/A	65.00%		RMB 5,400,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾

NOTES TO THE FINANCIAL INFORMATION—continued

20. INVESTMENTS IN SUBSIDIARIES—continued

Name of subsidiary	Place and date of incorporation/ establishment	Equity interest held by the Group			At date of this report	Registered capital as at December 31, 2015	Principal activities	Auditors GAAP
		2013	2014	2015				
東方弘泰(北京)投資管理有限公司 Orient Hongtai (Beijing) Investment Management Co., Ltd.*	PRC September 22, 2014	N/A	100.00%	100.00%	RMB 10,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
東方弘泰資本投資(北京)有限公司 Orient Hongtai Capital Investment (Beijing) Co., Ltd.* ⁽⁴⁾	PRC May 14, 2015	N/A	N/A	51.00%	RMB 20,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
上海東證結石投資管理有限公司 Shanghai Orient Jushi Investment Management Co., Ltd.* ⁽⁴⁾	PRC August 7, 2015	N/A	N/A	51.00%	RMB 5,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
東方星暉(北京)投資基金管理有限公司 Orient Xinghui (Beijing) Investment Fund Management Co., Ltd.* ⁽⁴⁾	PRC January 6, 2015	N/A	N/A	57.95%	RMB 8,800,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
拉薩經濟技術開發區東證國熙投資管理有限公司 Orient Guoxu Investment Management Co., Ltd.* ⁽⁴⁾	PRC March 5, 2015	N/A	N/A	51.00%	RMB 5,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
海寧東方紅投資管理有限公司 Haining Orient Sun Investment Management Co., Ltd.* ⁽⁴⁾	PRC July 7, 2015	N/A	N/A	51.00%	RMB 10,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
上海東方富厚股權投資管理有限公司 Shanghai Orient Fuhou Equity Investment Management Co., Ltd.* ⁽⁴⁾	PRC May 29, 2015	N/A	N/A	58.00%	RMB 5,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
東方騰駿(上海)投資管理有限公司 Orient Tengjun (Shanghai) Investment Management Co., Ltd.* ⁽⁴⁾	PRC September 11, 2015	N/A	N/A	51.00%	RMB 5,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
上海東證春聲投資管理有限公司 Shanghai Orient Chunyi Investment Management Co., Ltd.* ⁽⁴⁾	PRC October 15, 2015	N/A	N/A	51.00%	RMB 5,000,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
東證睿聯(上海) 投資中心投資中心(有限合夥) Orient Rui Lian (Shanghai) Investment Center LLP.* ⁽⁴⁾	PRC June 24, 2015	N/A	N/A	62.80%	RMB 219,100,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	
上海東證互娛欣商投資中心(有限合夥) Shanghai Orient Huyu Xinshang Investment Center LLP.* ⁽⁴⁾	PRC October 15, 2015	N/A	N/A	100.00%	RMB 120,000	Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾	

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NOTES TO THE FINANCIAL INFORMATION—continued

20. INVESTMENTS IN SUBSIDIARIES—continued

Name of subsidiary	Place and date of Incorporation/ establishment	Equity interest held by the Group			At date of this report	Registered capital as at December 31, 2015	Principal activities	Auditors GAAP
		As at December 31,						
		2013	2014	2015				
星輝海緋(上海)投資中心(有限合夥) Xinghui Haina (Shanghai) Investment Center LLP.*	PRC December 19, 2014	N/A	—	57.95%		RMB 2,400,000	Investment management	BDO PRC GAAP ⁽²⁾
上海東翊投資合夥企業(有限合夥) Shanghai Dongling Investment Partnership LLP.*	PRC October 10, 2014	N/A	99.50%	50.62%		RMB 55,717,310	Industry investment, Investment management, Investment advisory	BDO PRC GAAP ⁽²⁾
東石發展有限公司 East Milestone Company Limited ⁽⁴⁾	Hong Kong June 17, 2015	N/A	N/A	100.00%		RMB 190,000,000	Investment management, Investment advisory	N/A ⁽³⁾
Orient Securities Rui Lian Limited ⁽⁴⁾	Cayman Islands June 6, 2015	N/A	N/A	100.00%		USD 35,000,000	Investment management, Investment advisory	N/A ⁽³⁾
東方金融控股(香港)有限公司 Orient Finance Holdings (Hong Kong) Limited ⁽¹⁾	Hong Kong February 17, 2010	100.00%	100.00%	100.00%		HKD 1,000,000,000	Investment holding and provision of management services	SHINEWING (HK) HKFRSs ⁽²⁾ #
東方證券(香港)有限公司 ORIENT SECURITIES (HONG KONG) LIMITED	Hong Kong April 19, 2010	100.00%	100.00%	100.00%		HKD 550,000,000	Securities brokerage	SHINEWING (HK) HKFRSs ⁽²⁾ #
東方期貨(香港)有限公司 ORIENT FUTURES (HONG KONG) LIMITED	Hong Kong April 20, 2010	100.00%	100.00%	100.00%		HKD 230,000,000	Futures brokerage	SHINEWING (HK) HKFRSs ⁽²⁾ #
東方資產管理(香港)有限公司 ORIENT ASSET MANAGEMENT (HONG KONG) LIMITED	Hong Kong April 19, 2010	100.00%	100.00%	100.00%		HKD 30,000,000	Asset management	SHINEWING (HK) HKFRSs ⁽²⁾ #
東方融資(香港)有限公司 ORIENT CAPITAL (HONG KONG) LIMITED	Hong Kong January 11, 2013	100.00%	100.00%	100.00%		HKD 15,010,000	Equity trading	SHINEWING (HK) HKFRSs ⁽²⁾ #
東方信貸財務(香港)有限公司 ORIENT CREDIT FINANCE (HONG KONG) LIMITED	Hong Kong June 26, 2013	100.00%	100.00%	100.00%		HKD 1,000,000	Credit operations	SHINEWING (HK) HKFRSs ⁽²⁾ #

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NOTES TO THE FINANCIAL INFORMATION—continued

20. INVESTMENTS IN SUBSIDIARIES—continued

Name of subsidiary	Place and date of incorporation/ establishment	Equity interest held by the Group			At date of this report	Registered capital as at December 31, 2015	Principal activities	Auditors GAAP
		2013	2014	2015				
東方鴻盛有限公司 ORIENT HONGSHENG LIMITED	British Virgin Islands (“BVI”) October 10, 2014	N/A	100.00%	100.00%		USD 1	Special purpose	N/A ⁽³⁾
ORIENT ZHISHENG LIMITED ⁽⁴⁾	BVI June 23, 2015	N/A	N/A	100.00%		USD 1	Special purpose	N/A ⁽³⁾
東方智匯有限公司 ORIENT ZHIHUI LIMITED ⁽⁴⁾	BVI April 28, 2015	N/A	N/A	100.00%		USD 1	Special purpose	N/A ⁽³⁾
東方花旗證券有限公司 Citi Orient Securities Co., Ltd. ⁽¹⁾	PRC June 4, 2012	66.67%	66.67%	66.67%		RMB 800,000,000	Securities underwriting and sponsor	KPMG PRC PRC GAAP
上海東方證券創新投資有限公司 Shanghai Orient Securities Innovation Investment Co., Ltd.* ⁽¹⁾	PRC November 19, 2012	100.00%	100.00%	100.00%		RMB 1,100,000,000	Financial assets investment, Securities investment, Investment management and advisory	BDO PRC GAAP

* These subsidiaries do not have official English names. English translated names are for identification only.

(1) These subsidiaries are directly held by the Company.

(2) Auditors of the respective subsidiaries of the Group are as follows:

- BDO represents BDO China Shu Lun Pan Certified Public Accountants LLP, 立信會計師事務所 (特殊普通合伙), a certified public accountants registered in the PRC as appropriate;
- SHINEWING (HK) represents SHINEWING (HK) CPA Limited (信永中和會計師事務所) in Hong Kong, a firm of certified public accountants registered in Hong Kong;
- KPMG PRC represents KPMG Huazhen LLP, 畢馬威華振會計師事務所 (特殊普通合伙), a firm of certified public accountants registered in the PRC;
- HLB HK represents HLB Hodgson Impey Cheng Limited (國衛會計師事務所有限公司) in Hong Kong, a firm of certified public accountants registered in Hong Kong.
- # These subsidiaries have changed their auditor from HLB HK to SHINEWING (HK) in 2015.

(3) There is no statutory audit requirement for these subsidiaries and thus no audited financial statements were issued during the Relevant Periods.

(4) These subsidiaries were established in 2015.

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NOTES TO THE FINANCIAL INFORMATION—continued

20. INVESTMENTS IN SUBSIDIARIES—continued

The following table lists out the information relating to Citi Orient Securities Co., Ltd., the only subsidiary of the Group which has material non-controlling interest (“NCI”). The summarized financial information presented below represents the amounts before any inter-company elimination:

	As at 31 December		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Current assets	709,319	809,892	1,059,932
Non-current assets	11,840	22,514	80,185
Non-current liabilities	—	—	393
Current liabilities	52,321	111,369	291,001
Total equity	668,838	721,037	848,723

	Year ended 31 December		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Total revenue	192,351	407,744	705,596
(Loss)/profit for the year	(75,199)	52,199	126,508
Other comprehensive income	—	—	1,179
Total comprehensive (expense)/income	(75,199)	52,199	127,687
Cash flows from operating activities	63,629	145,677	239,695
Cash flows from investing activities	(106,880)	94,286	(631,033)
Cash flows from financing activities	—	—	—

Interests in consolidated structured entities:

The Group has consolidated certain structured entities including asset management schemes. For the asset management schemes where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance that it indicates that the Group is a principal.

The total assets of these consolidated asset management schemes amounted to RMB5,149 million, RMB5,741 million and RMB6,197 million as at December 31, 2013, 2014 and 2015 respectively.

Interests in all consolidated asset management schemes held by the Group amounted to fair value of RMB3,279 million, RMB4,545 million and RMB5,380 million at December 31, 2013, 2014 and 2015, respectively. It contains the interests in the subordinated tranche of those structured products held by the Group. The Group provides credit enhancement to the priority tranche investors by holding such subordinated tranche interests. As at December 31, 2013, 2014 and 2015, the fair value of the Group’s interests in the subordinated tranche of those structured products are RMB322 million, RMB431 million and RMB413 million, respectively.

Interests held by other interest holders are presented as change in net investment gains in the consolidated statement of profit or loss and included in financial liabilities designated at fair value through profit or loss in the consolidated statement of financial position.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

21. INVESTMENTS IN ASSOCIATES

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Cost of unlisted investments in associates	169,000	291,000	780,177
Share of post-acquisition profits and other comprehensive income, net of dividends received	611,011	712,793	1,128,349
	<u>780,011</u>	<u>1,003,793</u>	<u>1,908,526</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Cost of unlisted investments in associates	47,000	47,000	47,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	620,318	720,867	1,141,669
	<u>667,318</u>	<u>767,867</u>	<u>1,188,669</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

21. INVESTMENTS IN ASSOCIATES—continued

At the end of each reporting period, the Group has the following associates:

Name of associates	Place and date of establishment	Equity interest held by the Group			Principal activities
		As at December 31,			
		2013	2014	2015	
匯添富基金管理股份有限公司 China Universal Asset Management Company Limited (“China Universal”)	PRC February 3, 2005	47.00%	47.00%	39.96%	Fund management
上海誠毅投資管理有限公司 Shanghai ICY Capital Co., Ltd. (“ICY Capital”)	PRC April 7, 2010	45.00%	45.00%	45.00%	Equity investment
上海誠毅新能源創業投資有限公司 Shanghai ICY New Energy Venture Investment Co., Ltd.* (“ICY New Energy”) (Note)	PRC July 12, 2011	26.00%	27.73%	27.73%	Investment management
上海騰希投資合夥企業(有限合夥) Shanghai Tengxi Investment LLP.*	PRC May 6, 2014	N/A	22.50%	22.50%	Investment management
上海朱雀甲午投資中心(有限合夥) Shanghai Zhuque Jiawu Investment Center LLP.*	PRC January 17, 2015	N/A	N/A	23.12%	Investment management
北京東方智雲股權投資中心（有限合夥） Beijing Orient Zhiyun Equity Investment Center LLP.*	PRC August 20, 2015	N/A	N/A	42.19%	Equity investment
東方嘉實（上海）投資管理合夥企業（有限合夥） Orient Jiashi (Shanghai) Investment Management LLP.*	PRC April 15, 2015	N/A	N/A	25.64%	Investment management
上海東證遠譽投資中心（有限合夥） Shanghai Orient Yuanyu Investment Center LLP.*	PRC August 25, 2015	N/A	N/A	33.33%	Investment management
上海東證今緣股權投資基金合夥企業（有限合夥） Shanghai Orient Jinyuan Equity Investment LLP.*	PRC October 16, 2015	N/A	N/A	30.00%	Equity investment
東證騰駿（上海）投資合夥企業（有限合夥） Orient Tengjun (Shanghai) Investment LLP.*	PRC November 23, 2015	N/A	N/A	48.90%	Investment management
上海君煜投資中心（有限合夥） Shanghai Junyu Investment Center LLP.*	PRC December 16, 2015	N/A	N/A	45.95%	Investment management

* English translated names are for identification purpose only.

Note: In the year 2015, the shareholders of ICY New Energy decreased their investments in ICY New Energy proportionately, and accordingly the investment cost of the Group in ICY New Energy decreased from RMB208,000,000 to RMB180,266,667.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

21. INVESTMENTS IN ASSOCIATES—continued

The summarized financial information of China Universal prepared in accordance with IFRSs, which is an individually significant associate to the Group that is accounted for using equity method, is set out below:

China Universal

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Total assets	2,473,114	3,971,372	5,521,578
Total liabilities	1,062,571	2,337,612	2,546,931
Net assets	1,410,543	1,633,760	2,974,647
	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Total revenue	1,049,358	1,280,183	3,170,882
Profit for the year	269,302	286,795	940,408
Dividends paid	(39,000)	(39,000)	(39,000)
Other comprehensive income/(expense)	2,398	(24,577)	25,126
Total comprehensive income	232,700	223,218	926,534

Reconciliation of the above financial information to the carrying amount of the interest in above associate recognized in the financial statements:

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Equity attributable to equity holders of the associate	1,410,543	1,633,760	2,974,647
Proportion of equity interests held by the Group	47.00%	47.00%	39.96%
	662,955	767,867	1,188,669
Other adjustments	4,363	—	—
Carrying amount	667,318	767,867	1,188,669

Aggregate information of associates that are not individually material:

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
The Group’s share of (losses)/gains	(2,897)	1,334	(5,216)
The Group’s share of other comprehensive income/(expense)	131	(101)	(30)
The Group’s share of total comprehensive expense	(2,766)	1,233	(5,246)
Aggregate carrying amount of the Group’s interests in these associates	112,693	235,926	719,857

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

22. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group served as the investment manager of structured entities (including collective asset management schemes and investment funds), therefore had power over them during the Relevant Periods. Except for the structured entities the Group has consolidated as disclosed in Note 20, in the opinion of the directors of the Company, the variable returns the Group exposed to over these collective asset management schemes and investment funds in which the Group has interests are not significant. The Group therefore did not consolidate these structured entities.

The total assets of unconsolidated funds and asset management schemes managed by the Group amounted to RMB34,061 million, RMB34,908 million and RMB90,306 million as at December 31, 2013, 2014 and 2015, respectively. The Group classified the investments in unconsolidated funds and asset management schemes as available-for-sale financial investments and financial assets at fair value through profit or loss as appropriate. At the end of 2013, 2014 and 2015, the carrying amounts of the Group’s interests in unconsolidated funds and asset management schemes are RMB242 million, RMB92 million and RMB221 million, respectively, which approximates the maximum risk exposure of the Group, and the asset management fee income are RMB214 million, RMB282 million and RMB1,396 million, respectively.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Non-current			
Measured at fair value:			
Equity securities	448,548	255,301	384,082
Funds	—	—	45,454
Debt securities	403,545	1,021,521	595,371
Other investments (Note a)	544,802	778,649	8,568,460
Measured at cost:			
Equity securities	569,867	837,251	1,778,990
Less: provision for impairment losses	—	—	(3,002)
	<u>1,966,762</u>	<u>2,892,722</u>	<u>11,369,355</u>
Analysed as:			
Listed outside Hong Kong (Note b)	852,093	1,276,822	979,453
Unlisted	<u>1,114,669</u>	<u>1,615,900</u>	<u>10,389,902</u>
	<u>1,966,762</u>	<u>2,892,722</u>	<u>11,369,355</u>
Current			
Measured at fair value:			
Equity securities	4,050,591	3,311,743	5,683,089
Funds	561,806	464,598	1,408,901
Debt securities	21,061,643	29,778,490	33,973,250
Other investments (Note a)	3,050,376	3,987,855	7,445,115
Less: provision for impairment losses	(57,319)	(2,990)	(2,990)
	<u>28,667,097</u>	<u>37,539,696</u>	<u>48,507,365</u>
Analysed as:			
Listed outside Hong Kong (Note b)	16,334,262	20,804,923	20,911,106
Unlisted	<u>12,332,835</u>	<u>16,734,773</u>	<u>27,596,259</u>
	<u>28,667,097</u>	<u>37,539,696</u>	<u>48,507,365</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Non-current			
Measured at fair value:			
Equity securities	136,293	255,301	384,082
Debt securities	403,545	1,021,521	595,371
Other investments (Note a)	1,083	669,123	6,978,626
Measured at cost:			
Equity securities	92,569	92,569	367,569
	<u>633,490</u>	<u>2,038,514</u>	<u>8,325,648</u>
Analysed as:			
Listed outside Hong Kong (Note b)	539,838	1,276,822	979,453
Unlisted	93,652	761,692	7,346,195
	<u>633,490</u>	<u>2,038,514</u>	<u>8,325,648</u>
Current			
Measured at fair value:			
Equity securities	4,050,591	3,195,634	4,969,985
Funds	520,223	464,598	567,218
Debt securities	20,911,193	29,773,229	34,530,328
Other investments (Note a)	3,260,831	3,626,289	6,868,085
Less: provision for impairment losses	(57,319)	(8,920)	(8,920)
	<u>28,685,519</u>	<u>37,050,830</u>	<u>46,926,696</u>
Analysed as:			
Listed outside Hong Kong (Note b)	16,172,227	20,683,553	20,198,002
Unlisted	12,513,292	16,367,277	26,728,694
	<u>28,685,519</u>	<u>37,050,830</u>	<u>46,926,696</u>

The unlisted equity securities held by the Group and the Company are issued by private companies in, among others, the manufacturing industry, energy technology, and multimedia sectors. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period.

Fair value of the Group’s and the Company’s other available-for-sale financial assets are determined in the manner described in Note 58.

As at December 31, 2013, 2014 and 2015, the listed equity securities of the Group included approximately RMB448 million, RMB255 million and RMB384 million of restricted shares, 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.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued**23. AVAILABLE-FOR-SALE FINANCIAL ASSETS—continued**

As at December 31, 2013, 2014 and 2015, the listed equity securities of the Company included approximately RMB136 million, RMB255 million and RMB384 million of restricted shares, respectively. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Company to dispose of within the specified period.

As at December 31, 2013, 2014 and 2015, the Group and the Company entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale equity securities and exchange-traded funds with total fair values of RMB8 million, RMB42 million and RMB39 million, respectively, to clients. These securities continued to be recognized as financial assets of the Group and the Company. Further details of these arrangements are set out in Note 49.

In the opinion of the directors of the Company, non-current available-for-sale financial assets are not expected to be realised within one year from the end of the respective reporting periods.

Note a: Other investments mainly represent investments in collective asset management schemes issued and managed by the Group and the Company, wealth management products issued by banks and targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC. The Group and the Company have committed to hold their investments in collective asset management schemes that managed by the Group till the end of the investment period.

As at December 31, 2015, balance of available-for-sale financial assets included the Group’s investments made to the designated accounts managed by China Securities Finance Co., Ltd. (the “CSFC”), of which the carrying amounts were determined with reference to the asset report provided by CSFC. According to the corresponding agreements with CSFC, the Group made investments to such accounts amounting to RMB4,890,320,000 and RMB1,570,750,000 on July 6, 2015 and September 1, 2015, respectively. CSFC executes unified operation and investment management over these accounts, while all the investors including the Group share investment risks as well as potential income in proportion to their contributions.

Note b: Securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the “Listed outside Hong Kong” category.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

24. HELD-TO-MATURITY INVESTMENTS

GROUP AND COMPANY

	As at December 31,		
	2013 RMB'000	2014 RMB'000	2015 RMB'000
Non-current			
Debt securities (Note a)	1,259,208	1,247,202	293,921
Analysed as:			
Listed outside Hong Kong (Note c)	239,050	227,084	158,921
Unlisted (Note d)	1,020,158	1,020,118	135,000
	1,259,208	1,247,202	293,921
Current			
Debt securities (Note b)	—	—	920,078
Analysed as:			
Listed outside Hong Kong (Note c)	—	—	50,000
Unlisted (Note d)	—	—	870,078
	—	—	920,078

Note a: The held-to-maturity bond investments bore interest at 5.68% to 7.48% per annum and would not be redeemed within one year.

Note b: The held-to-maturity bond investments bore interest at 4.90% to 5.08% per annum and would be redeemed within one year.

Note c: As at December 31, 2013, 2014 and 2015, the listed outside Hong Kong debt securities were listed on Shanghai Stock Exchange.

Note d: As at December 31, 2013, 2014 and 2015, the unlisted debt securities were traded on inter-bank market.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

25. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Non-current			
Analysed by collateral type:			
Stock (Note)	637,000	5,482,030	10,209,680
Analysed by market:			
Stock exchange	637,000	5,482,030	10,209,680
Current			
Analysed by collateral type:			
Stock (Note)	1,597,495	7,007,223	13,930,643
Bond	557,658	1,019,168	2,357,892
Fund	2,720	—	—
Others	—	10,830	—
	2,157,873	8,037,221	16,288,535
Analysed by market:			
Stock exchange	1,698,092	7,868,839	15,623,703
Inter-bank market	459,781	157,552	664,832
Over the counter	—	10,830	—
	2,157,873	8,037,221	16,288,535

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

25. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Non-current			
Analysed by collateral type:			
Stock (Note)	637,000	5,482,030	10,209,680
Analysed by market:			
Stock exchange	637,000	5,482,030	10,209,680
Current			
Analysed by collateral type:			
Stock (Note)	1,597,495	7,007,223	13,930,643
Bond	88,677	380,851	2,224,692
Fund	2,720	—	—
	1,688,892	7,388,074	16,155,335
Analysed by market:			
Stock exchange	1,688,892	7,292,523	15,490,503
Inter-bank market	—	95,551	664,832
	1,688,892	7,388,074	16,155,335

Note: The financial assets (pledged by stock) held under resale agreements are those resale agreements which qualified investors entered into with the Group and the Company with a commitment to purchase the specified securities at a future date with an agreed price.

26. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Deferred tax assets	44,648	74,054	317,448
Deferred tax liabilities	(89,333)	(501,363)	(976,606)
	(44,685)	(427,309)	(659,158)

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

26. DEFERRED TAXATION—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Deferred tax assets	32,651	27,655	187,660
Deferred tax liabilities	(93,990)	(446,414)	(820,611)
	<u>(61,339)</u>	<u>(418,759)</u>	<u>(632,951)</u>

The following are the major deferred tax assets (liabilities) recognized and movements thereon in the Relevant Periods:

GROUP

	Financial instrument at fair value through profit or loss and derivatives	Accrued staff cost	Available-for-sale financial assets	Provision for impairment losses	Government grants and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2013	(4,957)	10,008	(15,962)	1,055	—	(9,856)
Credit to profit or loss ..	35,556	1,033	—	1,953	—	38,542
Charge to other comprehensive income	—	—	(73,371)	—	—	(73,371)
At December 31, 2013 and at January 1, 2014	<u>30,599</u>	<u>11,041</u>	<u>(89,333)</u>	<u>3,008</u>	<u>—</u>	<u>(44,685)</u>
(Charge)/credit to profit or loss	(61,076)	35,049	—	24,956	(67,944)	(69,015)
Charge to other comprehensive income	—	—	(313,609)	—	—	(313,609)
At December 31, 2014 and at January 1, 2015	<u>(30,477)</u>	<u>46,090</u>	<u>(402,942)</u>	<u>27,964</u>	<u>(67,944)</u>	<u>(427,309)</u>
(Charge)/credit to profit or loss	(67,716)	251,049	—	(7,655)	(134,548)	41,130
Charge to other comprehensive income	—	—	(272,979)	—	—	(272,979)
At December 31, 2015 ..	<u>(98,193)</u>	<u>297,139</u>	<u>(675,921)</u>	<u>20,309</u>	<u>(202,492)</u>	<u>(659,158)</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

26. DEFERRED TAXATION—continued

COMPANY

	Financial instrument at fair value through profit or loss and derivatives	Accrued staff cost	Available-for-sale financial assets	Provision for impairment losses	Government grants	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At January 1, 2013	(6,241)	—	(33,829)	13,934	—	(26,136)
Credit to profit or loss . .	7,340	—	—	17,618	—	24,958
Charge to other comprehensive income	—	—	(60,161)	—	—	(60,161)
At December 31, 2013 and at January 1, 2014	1,099	—	(93,990)	31,552	—	(61,339)
(Charge)/credit to profit or loss	(54,182)	8,176	—	(12,073)	—	(58,079)
Charge to other comprehensive income	—	—	(299,341)	—	—	(299,341)
At December 31, 2014 and at January 1, 2015	(53,083)	8,176	(393,331)	19,479	—	(418,759)
(Charge)/credit to profit or loss	(117,749)	163,722	—	(3,717)	(68,030)	(25,774)
Charge to other comprehensive income	—	—	(188,418)	—	—	(188,418)
At December 31, 2015 . .	(170,832)	171,898	(581,749)	15,762	(68,030)	(632,951)

27. ADVANCES TO CUSTOMERS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Loans to margin clients	2,792,976	9,735,315	13,532,052
Other advances to customers	13,977	210,743	709,031
	<u>2,806,953</u>	<u>9,946,058</u>	<u>14,241,083</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Loans to margin clients	2,792,976	9,735,315	13,532,052

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group and the Company.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

27. ADVANCES TO CUSTOMERS—continued

Loans to margin clients which are secured by the underlying pledged securities and cash collateral as disclosed in Note 38 are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan-to-collateral ratio. Any excess in the lending ratio will trigger a margin call when the customers have to make up the difference.

Advances to customers as at December 31, 2013, 2014 and 2015 were secured by the customers’ securities and cash collateral, which were pledged to the Group as collateral with undiscounted market values of approximately RMB9,342 million, RMB29,881 million and RMB48,702 million, respectively.

Advances to customers as at December 31, 2013, 2014 and 2015 were secured by the customers’ securities and cash collateral, which were pledged to the Company as collateral with undiscounted market values of approximately RMB9,259 million, RMB28,989 million and RMB45,389 million, respectively.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed.

The Group evaluates the collectability of the loans to margin clients based on management’s assessment on changes in credit quality, collateral and the past collection history of each margin client. As at December 31, 2013, 2014 and 2015, no provision for impairment losses was made on the loans to margin clients of the Group and the Company.

28. ACCOUNTS RECEIVABLE

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Accounts receivable from/related to:			
Clearing house	17,632	1,143	72,369
Brokers	11,069	25,909	89,588
Asset management fee and trading seats commission	75,766	96,712	277,617
Advisory and investment banking commission	13,316	8,125	65,315
Less: allowance for doubtful debts	(501)	(660)	(2,488)
	<u>117,282</u>	<u>131,229</u>	<u>502,401</u>
Movements in the allowance for doubtful debts are as follows:			
At beginning of the year	319	501	660
Impairment losses recognized	182	159	1,828
At end of the year	<u>501</u>	<u>660</u>	<u>2,488</u>
Ageing analysis of accounts receivable from the trade date is as follows:			
Within 1 year	112,140	131,204	493,450
Between 1 and 2 years	5,142	—	8,951
Between 2 and 3 years	—	25	—
	<u>117,282</u>	<u>131,229</u>	<u>502,401</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

28. ACCOUNTS RECEIVABLE—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Accounts receivable from/related to:			
Advisory commission	2,241	—	13,825
Trading seats and other commission	60,389	94,174	177,442
Less: allowance for doubtful debts	(313)	(471)	(956)
	<u>62,317</u>	<u>93,703</u>	<u>190,311</u>
Movements in the allowance for doubtful debts are as follows:			
At beginning of the year	270	313	471
Impairment losses recognized	43	158	485
At end of the year	<u>313</u>	<u>471</u>	<u>956</u>
Ageing analysis of accounts receivable from the trade date is as follows:			
Within 1 year	57,175	93,703	181,360
Between 1 and 2 years	5,142	—	8,951
	<u>62,317</u>	<u>93,703</u>	<u>190,311</u>

The normal settlement terms of accounts receivable from clearing house and brokers are within three months after trading date. Trading limits are set for clients. Normal settlement terms of accounts receivable from asset management fee and trading seats commission, advisory and investment banking commission are determined in accordance with the contract terms, usually within three months after the service provided.

29. OTHER RECEIVABLES AND PREPAYMENTS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Other receivables	164,020	205,506	173,571
Interest receivable	878,087	1,240,008	1,535,389
Dividends receivable	49	2	1,729
Loans and advances to customers	238,703	557,467	2,562,871
Prepayments	45,806	51,081	107,809
Less: allowance for doubtful debts (Note)	(70,120)	(71,923)	(66,176)
	<u>1,256,545</u>	<u>1,982,141</u>	<u>4,315,193</u>
The movements in the allowance for doubtful debts are set out below:			
At beginning of the year	55,811	70,120	71,923
Charge/(reversal) for the year	14,327	1,804	(5,203)
Amounts written-off	(18)	(1)	(544)
At end of the year	<u>70,120</u>	<u>71,923</u>	<u>66,176</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

29. OTHER RECEIVABLES AND PREPAYMENTS—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Other receivables	93,859	83,799	136,338
Interest receivable	820,976	1,183,224	1,444,535
Prepayments	39,900	43,251	54,628
Less: allowance for doubtful debts (Note)	(68,578)	(68,528)	(53,175)
	<u>886,157</u>	<u>1,241,746</u>	<u>1,582,326</u>
The movements in the allowance for doubtful debts are set out below:			
At beginning of the year	55,467	68,578	68,528
Charge/(reversal) for the year	13,121	(49)	(14,809)
Amounts written-off	(10)	(1)	(544)
At end of the year	<u>68,578</u>	<u>68,528</u>	<u>53,175</u>

Note: The allowance for doubtful debts of the Group and the Company mainly represents a collective assessment provision of 0.5% based on historical loss rate and an individual assessed provision according to the discounted net cash flow from collection of individual assets. Included in the individual provision were overdue lending, amounting to RMB68 million, RMB68 million and RMB52 million in 2013, 2014 and 2015, respectively. In 2015, amounts of RMB16 million of the above receivables were recovered.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Held for trading			
Debt securities	2,674,376	2,964,325	7,617,690
Equity securities	1,627,071	2,880,606	4,495,503
Funds	683,011	921,700	16,224,832
Other investments (Note a)	131,587	164,233	399,052
Designated at fair value through profit or loss			
Equity securities listed on			
National Equities Exchange and Quotations	—	342,782	3,133,777
	<u>5,116,045</u>	<u>7,273,646</u>	<u>31,870,854</u>
Analysed as:			
Listed in Hong Kong	2,642	492,418	2,068,944
Listed outside Hong Kong (Note b)	3,408,665	4,158,903	8,053,597
Unlisted (Note c)	1,704,738	2,622,325	21,748,313
	<u>5,116,045</u>	<u>7,273,646</u>	<u>31,870,854</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Held for trading			
Debt securities	1,146,239	1,417,161	5,361,524
Equity securities	1,591,693	2,595,402	3,635,812
Funds	575,078	461,902	15,653,328
Other investments (Note a)	10,852	61,622	338,966
Designated at fair value through profit or loss			
Equity securities listed on			
National Equities Exchange and Quotations	—	342,782	3,106,206
	<u>3,323,862</u>	<u>4,878,869</u>	<u>28,095,836</u>
Analysed as:			
Listed outside Hong Kong (Note b)	2,261,137	3,444,477	7,080,971
Unlisted (Note c)	1,062,725	1,434,392	21,014,865
	<u>3,323,862</u>	<u>4,878,869</u>	<u>28,095,836</u>

Note a: Other investments mainly represent investments in trust products and other wealth management products.

Note b: Securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the “Listed outside Hong Kong” category.

Note c: Unlisted securities mainly comprise of debt securities traded on inter-bank market and non-listed funds.

31. DERIVATIVE FINANCIAL INSTRUMENTS

GROUP

	As at December 31,					
	2013		2014		2015	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Stock index futures ⁽ⁱ⁾	—	—	857	—	1,413	—
Treasury bond futures ⁽ⁱⁱ⁾	—	—	—	—	—	—
Commodity futures ⁽ⁱⁱ⁾	—	—	—	—	—	—
Forward contracts ⁽ⁱⁱ⁾	—	—	—	—	—	—
Interest rate swaps ⁽ⁱⁱⁱ⁾	51,618	—	55,909	—	56,474	—
Embedded option instruments ^(iv)	—	—	—	7	—	153
Equity return swaps ^(v)	—	—	—	—	14,661	—
Stock options	—	—	—	—	1,981	—
Over the counter options ^(vi)	—	—	—	425	—	—
Gold swaps ^(vii)	—	—	—	—	—	112,272
Currency swaps ^(viii)	—	—	—	—	2,833	69,055
Total	<u>51,618</u>	<u>—</u>	<u>56,766</u>	<u>432</u>	<u>77,362</u>	<u>181,480</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

31. DERIVATIVE FINANCIAL INSTRUMENTS—continued

COMPANY

	As at December 31,					
	2013		2014		2015	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Stock index futures ⁽ⁱ⁾	—	—	—	—	—	—
Treasury bond futures ⁽ⁱⁱ⁾	—	—	—	—	—	—
Commodity futures ⁽ⁱⁱ⁾	—	—	—	—	—	—
Forward contracts ⁽ⁱⁱ⁾	—	—	—	—	—	—
Interest rate swaps ⁽ⁱⁱⁱ⁾	51,618	—	55,909	—	56,474	—
Embedded option instruments ^(iv)	—	—	—	7	—	153
Equity return swaps ^(v)	—	—	—	—	14,661	—
Stock options	—	—	—	—	1,981	—
Over the counter options ^(vi)	—	—	—	425	—	—
Gold swaps ^(vii)	—	—	—	—	—	112,272
Total	<u>51,618</u>	<u>—</u>	<u>55,909</u>	<u>432</u>	<u>73,116</u>	<u>112,425</u>

- (i) Stock index futures: Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group’s and the Company’s position in stock index futures (“SIF”) were settled daily and the corresponding receipts and payments were included in “clearing settlement funds”, except that SIF in Hong Kong market which is not under the daily market-to-market and settlement arrangement is presented in gross at the end of reporting period.
The contract value of the Group’s SIF contracts as at December 31, 2013, 2014 and 2015 were approximately RMB819 million, RMB1,031 million and RMB101 million, respectively.
The contract value of the Company’s SIF contracts as at December 31, 2013, 2014 and 2015 were approximately RMB819 million, RMB842 million and RMB56 million, respectively.
- (ii) Treasury bond futures, commodity futures and forward contracts: Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group’s and the Company’s position in treasury bond futures, commodity futures and forward contracts 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 December 31, 2013, 2014 and 2015.
- (iii) Interest rate swaps: Daily market-to-market and settlement arrangement was implemented starting from July 1, 2014. The notional principal amounts of the Group’s and the Company’s interest rate swaps contracts as at December 31, 2013, 2014 and 2015 were RMB11,770 million, RMB18,225 million and RMB18,690 million, respectively. The contract period usually lasts for one to five years. In 2013, fixed rate paid ranged from 3.15% to 4.75%, and floating reference rates were SHIBOR_3M and FR007; while fixed rate received ranged from 3.255% to 5.00%, and floating reference rates were SHIBOR_3M and FR007. In 2014, fixed rate paid ranged from 3.10% to 4.79%, and floating reference rates were SHIBOR_O/N and SHIBOR_3M; while fixed rate received ranged from 2.865% to 5.00%, and floating reference rates were SHIBOR_3M and FR007. In 2015, fixed rate paid ranged from 2.65% to 4.6525%, and floating reference rates were SHIBOR_O/N, SHIBOR_3M and FR007; while fixed rate received ranged from 1.66% to 4.995%, and floating reference rates were SHIBOR_3M and FR007.
- (iv) Embedded option instruments: The notional principal amounts of the Group’s and the Company’s embedded option instruments contracts as at December 31, 2013, 2014 and 2015 were approximately nil, RMB41 million and RMB750 million, respectively.
- (v) Equity return swaps: A derivative transaction, through which the Group and a qualified client agree to conduct a return swap in accordance with the agreed amount of nominal principal and return within a fixed period in the future. The return under such swap is linked with the performance of the underlying equity securities. The notional principal amounts of the Group’s and the Company’s equity return swaps as at December 31, 2013, 2014 and 2015 were nil, nil and RMB62 million, respectively.
- (vi) Over the counter options: Over the counter options are option contracts for CSI 300 index differences. The notional principal amounts of the contract as at December 31, 2013, 2014 and 2015 were nil, RMB41 million and nil, respectively. The contract as at December 31, 2014 started from October 27, 2014 to March 23, 2015.
- (vii) Gold swaps: The notional principal amounts of the Group’s and the Company’s Gold swaps as at December 31, 2013, 2014 and 2015 were approximately nil, nil and RMB2,347 million, respectively.
- (viii) Currency swaps: As at December 31, 2015, the notional amounts of the Group’s currency swaps contracts with exchange of CNY to HKD or USD were RMB8,428 million.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

31. DERIVATIVE FINANCIAL INSTRUMENTS—continued

Details of the Group’s and Company’s SIF are set out below:

GROUP

	As at December 31,					
	2013		2014		2015	
	Contract value	Fair value	Contract value	Fair value	Contract value	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
SIF	818,652	(9,406)	1,030,957	(29,781)	101,386	1,638
Less: settlement		(9,406)		(30,638)		225
Net position of SIF contracts		—		857		1,413

COMPANY

	As at December 31,					
	2013		2014		2015	
	Contract value	Fair value	Contract value	Fair value	Contract value	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
SIF	818,652	(9,406)	842,247	(30,638)	55,934	225
Less: settlement		(9,406)		(30,638)		225
Net position of SIF contracts		—		—		—

Details of the Group’s and the Company’s treasury bond futures, commodity futures and forward contracts are set out below:

GROUP AND COMPANY

	As at December 31,					
	2013		2014		2015	
	Contract value	Fair value	Contract value	Fair value	Contract value	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Treasury bond futures	293,773	(484)	1,371,744	6,447	2,066,614	13,877
Less: settlement		(484)		6,447		13,877
Net position of treasury bond futures		—		—		—
Commodity futures	—	—	4,368	16	74,679	252
Less: settlement		—		16		252
Net position of commodity futures		—		—		—
Forward contracts	—	—	—	—	73,590	(281)
Less: settlement		—		—		(281)
Net position of forward contracts ...		—		—		—

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

32. DEPOSITS WITH EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Deposits with stock exchanges:			
Shanghai Stock Exchange	31,857	44,271	100,176
Shenzhen Stock Exchange	28,968	33,219	75,722
Hong Kong Exchanges	1,311	1,296	1,364
Others	—	405	2,909
Deposits with futures and commodity exchanges			
Shanghai Futures Exchange	500	500	500
Dalian Commodity Exchange	500	500	500
Zhengzhou Commodity Exchange	400	400	400
China Financial Futures Exchange	118,393	136,586	52,216
Shanghai Gold Exchange	—	—	5,271
Guarantee fund paid to Shanghai Stock Exchange	5,291	8,044	48,557
Guarantee fund paid to Shenzhen Stock Exchange	5,421	7,310	32,743
Deposits with China Securities Finance Corporation Limited	93,275	487,139	517,662
Deposits with Shanghai Clearing House	1,323	36,939	77,671
Deposits with other financial institutions			
Equity return swap	—	—	43,400
Cross currency swap	—	—	100,920
	<u>287,239</u>	<u>756,609</u>	<u>1,060,011</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Deposits with stock exchanges:			
Shanghai Stock Exchange	24,233	35,460	88,495
Shenzhen Stock Exchange	21,844	24,996	64,868
Others	—	405	2,909
Deposits with futures and commodity exchanges			
China Financial Futures Exchange	103,533	104,495	32,216
Shanghai Gold Exchange	—	—	5,271
Guarantee fund paid to Shanghai Stock Exchange	5,291	8,044	48,557
Guarantee fund paid to Shenzhen Stock Exchange	5,421	7,310	32,743
Deposits with China Securities Finance Corporation Limited	93,275	487,139	517,662
Deposits with Shanghai Clearing House	1,323	36,939	77,671
Deposits with other financial institutions			
Equity return swap	—	—	43,400
	<u>254,920</u>	<u>704,788</u>	<u>913,792</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

33. CLEARING SETTLEMENT FUNDS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Clearing settlement funds held with clearing houses for:			
House accounts	1,546,691	1,749,418	6,612,067
Clients	1,600,384	3,899,199	2,213,337
	<u>3,147,075</u>	<u>5,648,617</u>	<u>8,825,404</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Clearing settlement funds held with clearing houses for:			
House accounts	822,726	613,641	1,319,155
Clients	917,498	2,852,736	4,719,163
	<u>1,740,224</u>	<u>3,466,377</u>	<u>6,038,318</u>

34. CASH AND BANK BALANCES

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
House accounts	1,581,089	5,140,843	11,828,582
Cash held on behalf of clients (Note)	9,404,958	18,662,306	43,514,925
	<u>10,986,047</u>	<u>23,803,149</u>	<u>55,343,507</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
House accounts	857,832	4,359,780	14,598,823
Cash held on behalf of clients (Note)	6,946,446	13,977,520	23,321,995
	<u>7,804,278</u>	<u>18,337,300</u>	<u>37,920,818</u>

Cash and bank balances comprise of cash on hand and demand deposits which bear interest at the prevailing market rates.

Note: The Group and the Company maintain bank accounts with banks to hold customers’ deposits arising from normal business transactions. The Group and the Company have recognized the corresponding amount in accounts payable to brokerage clients (Note 38).

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

35. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Cash and bank balances	1,581,089	5,140,843	11,828,582
Clearing settlement funds	1,546,691	1,749,418	6,612,067
Less: clearing settlement funds of Shanghai Orient Securities Futures Co., Ltd.	154,859	188,699	555,945
	<u>2,972,921</u>	<u>6,701,562</u>	<u>17,884,704</u>

36. BORROWINGS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Current			
Unsecured short-term borrowings (Note a)	—	2,340	383,780
Non-current			
Secured long-term borrowing (Note b)	—	362,894	385,388

COMPANY

The amount of the Company’s borrowings was nil as at December 31, 2013, 2014 and 2015.

Note a: Short-term bank borrowings are repayable within one year.

As at December 31, 2014, the unsecured bank borrowing, amounting to RMB2 million and bearing the rate of 6.72% was repayable within one year after the reporting period end.

As at December 31, 2015, the unsecured bank borrowing, amounting to RMB300 million and bearing the rate of 7.25% is repayable within one year.

As at December 31, 2015, the unsecured bank borrowing, amounting to HKD 100 million (approximately RMB84 million) and bearing a floating rate of 3 month HIBOR plus 2.1% per annum is repayable within one year.

Note b: As at December 31, 2014 and 2015, the long-term borrowing of the Group was secured by all participating shares of Orient Sun Rise China Bond Fund Segregated Portfolio, a structured entity of the Group. The carrying amount of such structured entity is RMB457 million and RMB456 million as at December 31, 2014 and 2015, respectively. The borrowing is denominated in Hong Kong dollar, bearing a floating rate of 3 months HIBOR plus 3.3% per annum and repayable within five years.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

37. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

GROUP AND COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Due to banks (Note a)	2,700,000	4,700,000	4,500,000
Due to China Securities Finance Corporation Limited (Note b) . . .	1,115,000	2,283,000	5,700,000
	<u>3,815,000</u>	<u>6,983,000</u>	<u>10,200,000</u>

Note a: As at December 31, 2013, 2014 and 2015, the interest rate bearing on the outstanding amount of due to banks varies from 3.27% to 5.28%, 4.81% to 6.10% and 2.22% to 2.80%, respectively, per annum. The amounts of due to banks were repayable within seven days from the end of the reporting period.

Note b: As at December 31, 2013, 2014 and 2015, the interest rate on due to China Securities Finance Corporation Limited is 5.80%, 7.00% and from 4.40% to 6.30%, respectively, per annum. The amounts of due to China Securities Finance Corporation Limited were repayable within one year from the end of the reporting period.

38. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

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.

Accounts payable to brokerage clients mainly include money held on behalf of clients in the banks and clearing houses by the Group and the Company, and are interest-bearing at the prevailing market interest rate.

As at December 31, 2013, 2014 and 2015, included in the Group’s and the Company’s accounts payable to brokerage clients were approximately RMB297 million, RMB1,416 million and RMB1,247 million, respectively, of margin deposits and cash collateral received from clients for margin financing and securities lending arrangement.

39. ACCRUED STAFF COSTS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Salaries, bonus and allowances	204,595	351,525	1,924,936
Social welfare	203	147	167
Annuity schemes	3,000	4,900	3,830
	<u>207,798</u>	<u>356,572</u>	<u>1,928,933</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

39. ACCRUED STAFF COSTS—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Salaries, bonus and allowances	123,683	152,235	1,203,893
Social welfare	197	147	167
	<u>123,880</u>	<u>152,382</u>	<u>1,204,060</u>

40. OTHER ACCOUNT PAYABLES, OTHER PAYABLES AND ACCRUALS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
<i>Other account payables</i>			
Payables for underwriting and products distribution fees	12,406	26,831	99,805
Settlement payables	971	758	46,804
<i>Other payables and accruals</i>			
Business tax and other taxes	22,609	79,969	292,872
Interest payable	120,507	406,526	1,497,558
Payables for securities and futures investor protection fund	7,339	14,732	23,420
Futures risk reserve	24,203	30,097	38,069
Dividends payable	9,390	17,580	15,500
Advance receipts	111,600	301,497	58,207
Others	51,774	319,928	131,746
	<u>360,799</u>	<u>1,197,918</u>	<u>2,203,981</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
<i>Other account payables</i>			
Payables for underwriting fees	1,560	1,560	2,560
Settlement payables	13,774	4,602	21,570
<i>Other payables and accruals</i>			
Business tax and other taxes	17,611	59,530	262,854
Interest payable	120,271	398,513	1,424,293
Payables for securities investor protection fund	6,287	12,988	18,021
Dividends payable	9,390	17,580	15,500
Advance receipts	—	1,497	497
Others	22,153	151,025	74,127
	<u>191,046</u>	<u>647,295</u>	<u>1,819,422</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

41. BONDS PAYABLES

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current			
Corporate bonds (Note a)	—	—	3,000,000
Subordinated bonds (Note a)	—	—	800,000
Offshore bonds (Note a)	—	—	981,294
	<u>—</u>	<u>—</u>	<u>4,781,294</u>
Non-current			
Corporate bonds (Note a)	—	5,999,541	17,999,369
Subordinated bonds (Note a)	4,399,719	5,798,532	11,598,814
Income certificates (Note b)	—	—	13,816,477
Offshore bonds (Note a)	—	881,761	3,766,534
	<u>4,399,719</u>	<u>12,679,834</u>	<u>47,181,194</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current			
Corporate bonds (Note a)	—	—	2,997,902
Subordinated bonds (Note a)	—	—	800,000
	<u>—</u>	<u>—</u>	<u>3,797,902</u>
Non-current			
Corporate bonds (Note a)	—	5,986,294	17,981,711
Subordinated bonds (Note a)	4,397,975	5,792,489	10,989,635
Income certificates (Note b)	—	—	13,816,477
	<u>4,397,975</u>	<u>11,778,783</u>	<u>42,787,823</u>

Note a:

Name		Issue amount	Value date	Maturity date	Coupon rate
Shenergy Subordinated Bond ⁽¹⁾	RMB	800,000,000	02/07/2013	01/07/2016	6.30%
13 Orient Subordinated Bond ⁽²⁾	RMB	3,600,000,000	15/11/2013	15/11/2017	6.70%
14 Corporate Bond ⁽³⁾	RMB	6,000,000,000	26/08/2014	26/08/2019	6.00%
14 Orient Subordinated Bond ⁽⁴⁾	RMB	1,400,000,000	17/11/2014	17/11/2018	5.50%
14 Offshore RMB Bond ⁽⁵⁾	RMB	900,000,000	26/11/2014	26/11/2017	6.50%
15-1 Offshore USD Bond ⁽⁶⁾	USD	200,000,000	08/05/2015	08/05/2018	4.20%
15 Orient Subordinated Bond ⁽⁷⁾	RMB	6,000,000,000	29/05/2015	29/05/2020	5.60%
15 Orient Future Subordinated Bond ⁽⁸⁾	RMB	600,000,000	18/06/2015	17/06/2018	6.82%
15-1 Offshore RMB Bond ⁽⁹⁾	RMB	620,000,000	05/08/2015	26/11/2017	6.50%
15-2 Offshore USD Bond ⁽¹⁰⁾	USD	150,000,000	25/08/2015	25/08/2018	4.09%
15 Orient Corporate Bond ⁽¹¹⁾	RMB	3,000,000,000	10/11/2015	10/11/2016	3.70%
15-2 Offshore RMB Bond ⁽¹²⁾	RMB	1,000,000,000	20/11/2015	14/11/2016	4.50%
15 Corporate Bond ⁽¹³⁾	RMB	12,000,000,000	26/11/2015	26/11/2020	3.90%

(1) As approved by the CSRC [2013]161, the Company issued a 3-year subordinated bond with par value of RMB800 million to Shenergy (Group) Company limited on July 2, 2013. The bond bears a fixed annual interest rate of 6.30% and the interest is paid annually.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

41. BONDS PAYABLES—continued

- (2) As approved by the CSRC [2013]1318, the Company issued a 4-year subordinated bond with par value no more than RMB3.6 billion on November 15, 2013. The bond bears a fixed annual interest rate of 6.70% and the interest is paid annually.
- (3) As approved by the CSRC [2014]816, the Company issued a corporate bond with par value of RMB6 billion on August 26, 2014. The bond bears an interest rate of 6.00% with a maturity period of 5 years and the interest is paid annually.
- (4) As approved by the CSRC, the Company issued 14 Orient Subordinated Bond with par value of RMB1.4 billion on November 17, 2014. The bond bears an interest rate of 5.50% with a maturity period of 4 years and the interest is paid annually.
- (5) Orient Hongsheng Limited, the Company’s Hong Kong subsidiary, issued a 3-year Offshore RMB Bond with par value of RMB900 million on November 26, 2014. The Company entered into a keepwell deed for bond. The Offshore RMB Bond was guaranteed by Orient Finance Holdings (Hong Kong) Limited. The bond bears a fixed annual interest rate of 6.50% and the interest is paid semi-annually.
- (6) Orient Zhihui Limited, the Company’s Hong Kong subsidiary, issued a 3-year Offshore USD Bond with par value of USD200 million on May 8, 2015. The Company entered into a keepwell deed for bond. The Offshore USD Bond was guaranteed by Orient Finance Holdings (Hong Kong) Limited. The bond bears a fixed annual interest rate of 4.20% and the interest is paid semi-annually.
- (7) As approved by the CSRC, the Company issued 15 Orient Subordinated Bond with par value of RMB6 billion on May 29, 2015. The bond bears an interest rate of 5.60% with a maturity period of 5 years and the interest is paid annually.
- (8) Shanghai Orient Securities Futures Co., Ltd., the Company’s subsidiary, issued 15 Orient Future Subordinated Bond with par value of RMB600 million to qualified institutional investors on June 18, 2015. The bond bears an interest rate of 6.82% with a maturity period of 3 years and the interest is paid annually.
- (9) Orient Hongsheng Limited, the Company’s Hong Kong subsidiary, issued an Offshore RMB Bond with par value of RMB620 million on August 5, 2015 which is consolidated in the former series of bonds which were issued on November 26, 2014 with amounting to RMB900 million (see above (5)). The Offshore RMB Bond was guaranteed by Orient Finance Holdings (Hong Kong) Limited and the Company entered into a keepwell deed. The bond bears a fixed annual interest rate of 6.50% and the interest is paid semi-annually.
- (10) Orient Zhihui Limited, the Company’s Hong Kong subsidiary, issued a 3-year Offshore USD Bond with par value of USD150 million on August 25, 2015. The Offshore USD Bond was guaranteed by Orient Finance Holdings (Hong Kong) Limited and The Company entered into a keepwell deed as well. The bond bears a fixed annual interest rate of 4.09% and the interest is paid semi-annually.
- (11) As approved by the CSRC, the Company issued a corporate bond with par value of RMB3 billion on November 10, 2015. The bond bears an interest rate of 3.70% with a maturity period of 1 year and the interest will be paid annually.
- (12) Orient Zhisheng Limited, the Company’s Hong Kong subsidiary, issued an Offshore RMB Bond with par value of RMB1 billion on November 20, 2015. The Offshore RMB Bond was guaranteed by Orient Finance Holdings (Hong Kong) Limited and the Company entered into a keepwell deed for it. The bond bears a fixed annual interest rate of 4.50% with a maturity period of 360 days and the interest is paid semi-annually.
- (13) As approved by the CSRC [2015]2406, the Company issued a corporate bond with par value of RMB12 billion on November 26, 2015. The bond bears an interest rate of 3.90% with a maturity period of 5 years and the interest is paid annually.

Note b: According to Securities Association of China (“SAC”)’s letter on approving the pilot of over the counter income certificate business (SAC [2014]285), the Company was authorized to conduct income certificate business. The amount represents income certificates issued by the Company with maturities of more than one year. The yields of the outstanding income certificates varied from 5.40% to 6.30%.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

42. SHORT-TERM FINANCING BILLS PAYABLES

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Unsecured and unguaranteed			
Short-term financing bills payables (Note a)	2,500,000	5,000,000	6,200,000
Income certificates (Note b)	—	1,779,791	2,196,061
	<u>2,500,000</u>	<u>6,779,791</u>	<u>8,396,061</u>
Analysed as:			
Inter-bank market	2,500,000	5,000,000	6,200,000
Over the counter	—	1,779,791	2,196,061
	<u>2,500,000</u>	<u>6,779,791</u>	<u>8,396,061</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Unsecured and unguaranteed			
Short-term financing bills payables (Note a)	2,500,000	5,000,000	6,200,000
Income certificates (Note b)	—	1,809,791	1,599,271
	<u>2,500,000</u>	<u>6,809,791</u>	<u>7,799,271</u>
Analysed as			
Inter-bank market	2,500,000	5,000,000	6,200,000
Over the counter	—	1,809,791	1,599,271
	<u>2,500,000</u>	<u>6,809,791</u>	<u>7,799,271</u>

Note a: As at December 31, 2013, 2014 and 2015, short-term financing bills payables were unsecured and unguaranteed debt securities issued on the PRC inter-bank market by the Company and were repayable within 1 year. As at December 31, 2013, the short-term financing bills payable bears interest at 5.35%. As at December 31, 2014 and 2015, short-term financing bills payables bear interest rates ranging from 4.08% to 4.68 %, and 2.80% to 3.09%, respectively per annum.

Note b: As at December 31, 2014 and 2015, according to Securities Association of China (“SAC”)’s letter on approving the pilot of over the counter income certificate business (SAC [2014]285), the Group and the Company has the authorization to conduct income certificate business. The yields of all the outstanding income certificates were ranged from 4.00% to 7.00%, and 2.50% to 7.50%, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

43. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Financial liabilities designated at fair value through profit or loss			
—Coupon bearing bonds (Note a)	136,170	—	225,940
—Gold borrowings (Note b)	—	—	2,234,618
—Interests attributable to other holders of consolidated structured entities (Note c)	1,396,883	878,236	686,708
	<u>1,533,053</u>	<u>878,236</u>	<u>3,147,266</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Financial liabilities designated at fair value through profit or loss			
—Coupon bearing bonds (Note a)	136,170	—	225,940
—Gold borrowings (Note b)	—	—	2,234,618
	<u>136,170</u>	<u>—</u>	<u>2,460,558</u>

Note a: As at December 31, 2013 and 2015, included in the Group’s and the Company’s financial liabilities designated at fair value through profit or loss were coupon-bearing bonds borrowed by the Group and the Company.

Note b: As at December 31, 2015, included in the Group’s and the Company’s financial liabilities designated at fair value through profit or loss were gold borrowing contracts entered into by the Company with counterparties.

The risk of economic exposure on these contracts is primarily hedged by swap contracts.

Note c: Interests attributable to other holders of consolidated structured schemes and funds consist of third-party unit holders’ interests in these consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash.

The realization of third-party interests in the financial liabilities arising from consolidation of structured consolidated collective asset management schemes and funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated collective asset management schemes and funds held to back investment contract liabilities and are subject to market risk and the actions of third-party investors.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

44. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

GROUP

		As at December 31,		
		2013	2014	2015
		RMB’000	RMB’000	RMB’000
Current				
Analysed by collateral type				
Bonds	18,538,312	22,944,837	26,366,591	
Securities-backed lending repurchase agreement	70,000	8,986,837	3,503,500	
Advances to customers backed repurchase agreement	1,913,410	4,831,000	6,785,000	
Others	692,600	250,000	10,000	
	<u>21,214,322</u>	<u>37,012,674</u>	<u>36,665,091</u>	
Analysed by market				
Stock exchange	11,013,359	14,137,245	17,704,612	
Inter-bank market	7,723,953	8,987,592	8,661,979	
Over the counter	2,477,010	13,887,837	10,298,500	
	<u>21,214,322</u>	<u>37,012,674</u>	<u>36,665,091</u>	
		As at December 31,		
		2013	2014	2015
		RMB’000	RMB’000	RMB’000
Non-current				
Analysed by collateral type				
Securities-backed lending repurchase agreement	—	73,500	3,975,000	
Advances to customers backed repurchase agreement	—	—	7,240,000	
Others	—	20,000	—	
	<u>—</u>	<u>93,500</u>	<u>11,215,000</u>	
Analysed by market				
Inter-bank market	—	20,000	—	
Over the counter	—	73,500	11,215,000	
	<u>—</u>	<u>93,500</u>	<u>11,215,000</u>	

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

44. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS—continued

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Current			
Analysed by collateral type			
Bonds	18,080,416	22,677,439	25,778,090
Securities-backed lending repurchase agreement	70,000	8,986,837	3,503,500
Advances to customers backed repurchase agreement	1,863,410	4,831,000	6,785,000
Others	613,600	70,000	—
	<u>20,627,426</u>	<u>36,565,276</u>	<u>36,066,590</u>
Analysed by market			
Stock exchange	10,566,463	13,869,847	17,452,613
Inter-bank market	7,583,953	8,807,592	8,325,477
Over the counter	<u>2,477,010</u>	<u>13,887,837</u>	<u>10,288,500</u>
	<u>20,627,426</u>	<u>36,565,276</u>	<u>36,066,590</u>
	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Non-current			
Analysed by collateral type			
Securities-backed lending repurchase agreement	—	73,500	3,975,000
Advances to customers backed repurchase agreement	—	—	7,240,000
	<u>—</u>	<u>73,500</u>	<u>11,215,000</u>
Analysed by market			
Over the counter	<u>—</u>	<u>73,500</u>	<u>11,215,000</u>

Sales and repurchase agreements are transactions in which the Group and the Company sell a security and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group and the Company are still exposed to substantially all the credit risks, market risks and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group and the Company retain substantially all the risks and rewards of these securities.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

45. 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:

GROUP AND COMPANY

	<u>Opening</u> <u>RMB’000</u>	<u>Addition</u> <u>RMB’000</u>	<u>Closing</u> <u>RMB’000</u>
Registered, issued and fully paid ordinary shares of RMB1 each (in thousands):			
As at December 31, 2013	4,281,743	—	4,281,743
As at December 31, 2014	4,281,743	—	4,281,743
As at December 31, 2015	4,281,743	1,000,000	5,281,743

As at March 16, 2015, as approved by CSRC [2015]305, the Company listed on A-share market and issued 1,000,000,000 RMB-denominated ordinary shares to the public and the issue price is RMB10.03 per share, which brought the total funds raised for RMB9,799,724,000 (after deducting underwriting and sponsorship fees of RMB230,276,000 in all), and other distribution fee of RMB12,250,000, includes the increased registered capital of RMB1,000,000,000 and the share premium of RMB8,787,474,000.

46. RESERVES

(1) 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 movements of the capital reserve of the Group and the Company are set out below:

GROUP AND COMPANY

	<u>Opening</u> <u>RMB’000</u>	<u>Addition</u> <u>RMB’000</u>	<u>Closing</u> <u>RMB’000</u>
As at December 31, 2013			
Share premium	3,796,107	—	3,796,107
As at December 31, 2014			
Share premium	3,796,107	—	3,796,107
As at December 31, 2015			
Share premium (Note 45)	3,796,107	8,787,474	12,583,581
Other capital reserve	—	(14,190)	(14,190)
	<u>3,796,107</u>	<u>8,773,284</u>	<u>12,569,391</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

46. RESERVES—continued

(2) Surplus reserve

The surplus reserve includes statutory surplus reserve and discretionary surplus reserve.

Pursuant to the Company Law of the PRC, 10% of the net profit of the Company, as determined under the relevant accounting rules in the PRC, is required to be transferred to the statutory surplus reserve until such time when this reserve reaches 50% of the share capital of the Company. The reserve appropriated can be used for offsetting accumulated losses, expansion of business and capitalization, in accordance with the Company’s articles of association or as approved by the shareholders in a shareholders’ general meeting.

Since the amendment of the Company’s articles in 2014, the Company is required to appropriate 5% of net profit derived as discretionary reserve from retained profits in accordance with the relevant accounting rules in the PRC.

GROUP AND COMPANY

	<u>Opening</u>	<u>Addition</u>	<u>Closing</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
For the year ended December 31, 2013			
Statutory reserve	1,019,469	103,833	1,123,302
Discretionary reserve	—	—	—
	<u>1,019,469</u>	<u>103,833</u>	<u>1,123,302</u>
For the year ended December 31, 2014			
Statutory reserve	1,123,302	208,014	1,331,316
Discretionary reserve	—	104,007	104,007
	<u>1,123,302</u>	<u>312,021</u>	<u>1,435,323</u>
For the year ended December 31, 2015			
Statutory reserve	1,331,316	681,784	2,013,100
Discretionary reserve	104,007	340,891	444,898
	<u>1,435,323</u>	<u>1,022,675</u>	<u>2,457,998</u>

(3) General reserve

The general reserve includes general risk reserve and transaction risk reserve.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as general risk reserve from retained profits. Since 2014, the Company management has decided to appropriate 11% of net profit derived as general risk reserve from retained profits.

Pursuant to the Securities Law of the PRC, the Company is required to appropriate no less than 10% of the net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as transaction risk reserve from retained profits and cannot be distributed or transferred to share capital.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

46. RESERVES—continued

(3) General reserve—continued

In accordance with the Financial Rules for Financial Enterprises and its Implementation Guide, Shanghai Orient Securities Futures Co., Ltd. is required to appropriate 10% of net profit as general risk reserve.

In accordance with the Interim Measures for the Supervision and Administration of Risk Reserves for Publicly Offered Securities Investment Funds, Orient Securities Asset Management Co., Ltd. is required to appropriate no less than 10% of those management fee income as general risk reserve.

The movements of general reserve of the Group and the Company are set out below:

GROUP

	Opening RMB’000	Addition RMB’000	Closing RMB’000
For the year ended December 31, 2013			
General risk reserve	1,034,087	110,598	1,144,685
Transaction risk reserve	1,367,368	157,513	1,524,881
	<u>2,401,455</u>	<u>268,111</u>	<u>2,669,566</u>
For the year ended December 31, 2014			
General risk reserve	1,144,685	236,010	1,380,695
Transaction risk reserve	1,524,881	316,589	1,841,470
	<u>2,669,566</u>	<u>552,599</u>	<u>3,222,165</u>
For the year ended December 31, 2015			
General risk reserve	1,380,695	802,983	2,183,678
Transaction risk reserve	1,841,470	1,113,283	2,954,753
	<u>3,222,165</u>	<u>1,916,266</u>	<u>5,138,431</u>

COMPANY

	Opening RMB’000	Addition RMB’000	Closing RMB’000
For the year ended December 31, 2013			
General risk reserve	1,019,469	103,833	1,123,302
Transaction risk reserve	1,363,397	155,750	1,519,147
	<u>2,382,866</u>	<u>259,583</u>	<u>2,642,449</u>
For the year ended December 31, 2014			
General risk reserve	1,123,302	228,816	1,352,118
Transaction risk reserve	1,519,147	312,022	1,831,169
	<u>2,642,449</u>	<u>540,838</u>	<u>3,183,287</u>
For the year ended December 31, 2015			
General risk reserve	1,352,118	749,961	2,102,079
Transaction risk reserve	1,831,169	1,022,676	2,853,845
	<u>3,183,287</u>	<u>1,772,637</u>	<u>4,955,924</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

46. RESERVES—continued

(4) Investment revaluation reserve

The movements of the investment revaluation reserve of the Group and the Company are set out below:

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At beginning of the year	131,430	357,351	1,244,695
Available-for-sale financial assets			
Net fair value changes during the year	521,733	2,089,675	4,284,944
Income tax related to net fair value changes during the year . . .	(130,433)	(522,419)	(1,071,236)
Reclassification adjustment to profit or loss on disposal	(282,770)	(876,425)	(3,186,214)
Reclassification adjustment to profit or loss on impairment . . .	57,319	2,990	3,002
Income tax related to reclassification adjustment to profit or loss during the year	57,062	208,810	798,257
Share of fair value gain/(loss) on available-for-sale financial assets of associates	2,960	(16,015)	11,781
Others	50	728	—
At end of the year	<u>357,351</u>	<u>1,244,695</u>	<u>2,085,229</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At beginning of the year	142,743	326,106	1,208,944
Available-for-sale financial assets			
Net fair value changes during the year	499,896	2,006,538	3,521,807
Income tax related to net fair value changes during the year . . .	(124,974)	(501,634)	(880,452)
Reclassification adjustment to profit or loss on disposal	(316,570)	(818,093)	(2,768,135)
Reclassification adjustment to profit or loss on impairment . . .	57,319	8,920	—
Income tax related to reclassification adjustment to profit or loss during the year	64,813	202,293	692,034
Share of fair value gain/(loss) on available-for-sale financial assets of associates	2,829	(15,914)	11,810
Others	50	728	—
At end of the year	<u>326,106</u>	<u>1,208,944</u>	<u>1,786,008</u>

(5) Translation reserve

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and the income and expenses are translated at the average exchange rates or at the approximate exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in the translation reserve.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

47. RETAINED PROFITS

The movements of retained profits of the Group and the Company are set out below:

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At beginning of the year	3,126,574	3,333,878	4,382,755
Profit for the year	1,007,422	2,341,671	7,325,225
Appropriation to surplus reserve	(103,833)	(312,021)	(1,022,675)
Appropriation to general reserve	(268,111)	(552,599)	(1,916,266)
Dividends recognized as distribution	(428,174)	(428,174)	(1,320,436)
At end of the year	<u>3,333,878</u>	<u>4,382,755</u>	<u>7,448,603</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At beginning of the year	3,076,146	3,322,887	4,121,998
Profit for the year	1,038,331	2,080,144	6,817,831
Appropriation to surplus reserve	(103,833)	(312,021)	(1,022,675)
Appropriation to general reserve	(259,583)	(540,838)	(1,772,637)
Dividends recognized as distribution	(428,174)	(428,174)	(1,320,436)
At end of the year	<u>3,322,887</u>	<u>4,121,998</u>	<u>6,824,081</u>

Details of the dividends are set out in Note 48.

48. DIVIDENDS

GROUP AND COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Dividends recognized as distribution	<u>428,174</u>	<u>428,174</u>	<u>1,320,436</u>

Pursuant to the resolution of the annual general meeting of Shareholders held on May 28, 2013, the Company distributed cash dividends of RMB1.00 for every 10 shares (tax included) based on 4.28 billion shares held amounting to approximately RMB0.43 billion in total for the year ended December 31, 2012.

Pursuant to the resolution of the annual general meeting of Shareholders held on May 28, 2014, the Company distributed cash dividends of RMB1.00 for every 10 shares (tax included) based on 4.28 billion shares held amounting to approximately RMB0.43 billion in total for the year ended December 31, 2013.

NOTES TO THE FINANCIAL INFORMATION—continued

48. DIVIDENDS—continued

Pursuant to the resolution of the general meeting of Shareholders held on 25 May 2015, the Company distributed cash dividends of RMB1.50 for every 10 shares (tax included) based on 5.28 billion shares held amounting to RMB0.79 billion in total after the IPO in 2015. Pursuant to the resolution of the extraordinary general meeting held on September 22, 2015, the Company distributed cash dividends of RMB1.00 for every 10 shares (tax included) based on 5.28 billion shares held amounting to RMB0.53 billion in total for the six months ended June 30, 2015.

49. TRANSFER OF FINANCIAL ASSETS

Repurchase agreements

Sales and repurchase agreements are transactions in which the Group and the Company sell a security or rights and interests in a margin loan and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group and the Company are still exposed to substantially all the credit risks, market risks and rewards of these securities sold. These securities are not derecognized from the financial statements but regarded as “collateral” for the liabilities because the Group and the Company retain substantially all the risks and rewards of these securities and advances to customers. Because the Group and the Company sell the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred securities during the term of the arrangement.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

49. TRANSFER OF FINANCIAL ASSETS—continued

Repurchase agreements—continued

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets that are not derecognized in their entirety and the associated liabilities:

GROUP

As at December 31, 2013

	Financial assets at fair value through profit or loss RMB'000	Available- for-sale financial assets RMB'000	Financial assets held under resale agreements RMB'000	Advances to customers RMB'000	Held-to- maturity investments RMB'000	Securities borrowing arrangements RMB'000	Other receivables RMB'000	Total RMB'000
Carrying amount of transferred assets	475,614	17,699,725	70,000	1,995,592	850,597	—	287,943	21,379,471
Carrying amount of associated liabilities	489,156	17,795,697	70,000	1,913,410	867,059	—	79,000	21,214,322
Net position	(13,542)	(95,972)	—	82,182	(16,462)	—	208,943	165,149

As at December 31, 2014

	Financial assets at fair value through profit or loss RMB'000	Available- for-sale financial assets RMB'000	Financial assets held under resale agreements RMB'000	Advances to customers RMB'000	Held-to- maturity investments RMB'000	Securities borrowing arrangements RMB'000	Other receivables RMB'000	Total RMB'000
Carrying amount of transferred assets	629,808	18,923,357	10,103,374	5,184,987	473,336	3,401,472	333,877	39,050,211
Carrying amount of associated liabilities	601,488	18,706,192	9,076,537	4,831,000	476,181	3,214,776	200,000	37,106,174
Net position	28,320	217,165	1,026,837	353,987	(2,845)	186,696	133,877	1,944,037

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

49. TRANSFER OF FINANCIAL ASSETS—continued

Repurchase agreements—continued

GROUP—continued

As at December 31, 2015

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Financial assets held under resale agreements	Advances to customers	Held-to- maturity investments	Securities borrowing arrangements	Other receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	1,895,344	25,112,035	9,002,362	13,532,052	379,205	2,368,928	58,840	52,348,766
Carrying amount of associated liabilities	1,621,211	21,381,924	8,143,332	14,025,000	329,696	2,368,928	10,000	47,880,091
Net position	274,133	3,730,111	859,030	(492,948)	49,509	—	48,840	4,468,675

COMPANY

As at December 31, 2013

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Financial assets held under resale agreements	Advances to customers	Held-to- maturity investments	Securities borrowing arrangements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	475,614	17,241,828	70,000	1,945,592	850,597	—	20,583,631
Carrying amount of associated liabilities	489,156	17,337,801	70,000	1,863,410	867,059	—	20,627,426
Net position	(13,542)	(95,973)	—	82,182	(16,462)	—	(43,795)

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

49. TRANSFER OF FINANCIAL ASSETS—continued

Repurchase agreements—continued

COMPANY—continued

As at December 31, 2014

	Financial assets at fair value through profit or loss	Financial assets held under resale agreements	Advances to customers	Held-to- maturity investments	Securities borrowing arrangements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	629,808	18,645,959	5,184,987	473,336	3,401,472	38,448,936
Carrying amount of associated liabilities	601,488	18,428,794	4,831,000	476,181	3,214,776	36,638,776
Net position	28,320	217,165	353,987	(2,845)	186,696	1,810,160

As at December 31, 2015

	Financial assets at fair value through profit or loss	Financial assets held under resale agreements	Advances to customers	Held-to- maturity investments	Securities borrowing arrangements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	1,173,741	25,112,035	13,532,052	379,205	2,368,928	51,568,323
Carrying amount of associated liabilities	1,032,710	21,381,924	14,025,000	329,696	2,368,928	47,281,590
Net position	141,031	3,730,111	(492,948)	49,509	—	4,286,733

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

49. TRANSFER OF FINANCIAL ASSETS—continued

Securities lending arrangements

The Group and the Company entered into securities lending agreements with clients to lend out its equity securities and exchange-traded funds classified as available-for-sale financial assets of carrying amount totaling RMB8 million, RMB42 million and RMB39 million as at December 31, 2013, 2014 and 2015, respectively, which are secured by client’s securities and deposits held as collateral. 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 and the Company at specified future dates and the maximum covered period is 180 days. The Group and the Company have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognised these securities in the Financial Information.

50. CAPITAL COMMITMENTS

GROUP AND COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Capital expenditure in respect of acquisition of property and equipment:			
Contracted but not provided for	284,938	203,807	63,533

51. OPERATING LEASE COMMITMENTS

The Group as lessee

At December 31, 2013, 2014 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Within one year	144,958	161,767	178,668
In the second year	121,182	132,797	116,010
In the third year	105,137	66,526	82,491
Over three years	124,690	105,137	103,163
	495,967	466,227	480,332

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

51. OPERATING LEASE COMMITMENTS—continued

The Company as lessee

At December 31, 2013, 2014 and 2015, the Company had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Within one year	118,235	129,414	163,121
In the second year	98,784	122,243	100,463
In the third year	89,058	53,221	66,944
Over three years	121,802	98,943	103,163
	<u>427,879</u>	<u>403,821</u>	<u>433,691</u>

Operating lease payments represent rentals, payable by the Group and the Company on its office properties.

The Group and the Company as lessor

During the Relevant Periods, the Group and the Company did not have material lease commitment as lessor.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

52. DIRECTORS’ AND SUPERVISORS’ EMOLUMENTS

The emoluments of the Directors and Supervisors of the Company paid/payable by the Group for the year ended December 31, 2013, 2014 and 2015 are set out below:

For the year ended December 31, 2013

Name	Independent director fee*	Salary and allowances	Employer’s contribution to pension schemes	Discretionary bonuses	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Directors:					
Pan Xinjun ⁽¹⁾	—	1,800	225	156	2,181
Jin Wenzhong ⁽¹⁾	—	1,980	225	1,400	3,605
Song Xuefeng ⁽²⁾	—	—	—	—	—
Zhang Qian ⁽³⁾	—	—	—	—	—
Wu Junhao ⁽³⁾	—	—	—	—	—
Zhou Donghui ⁽³⁾	—	—	—	—	—
Jia Yifan ⁽³⁾	—	—	—	—	—
Xu Chao ⁽³⁾	—	—	—	—	—
Zhou Yao ⁽³⁾	—	—	—	—	—
Chen Bichang ⁽⁴⁾	—	—	—	—	—
Qiao Zhigang ⁽⁵⁾	—	—	—	—	—
Independent Directors:					
Li Huizhen ⁽⁶⁾	120	—	—	—	120
Lu Xiongwen ⁽⁷⁾	120	—	—	—	120
Chen Xinyuan ⁽⁸⁾	120	—	—	—	120
Li Zhiqiang ⁽⁹⁾	120	—	—	—	120
Zhou Daojiong ⁽¹⁰⁾	120	—	—	—	120
Supervisors:					
Xiao Yintao ⁽¹¹⁾	—	1,800	225	156	2,181
Jiang Jiawang ⁽¹¹⁾	—	875	106	755	1,736
Liu Wenbin ⁽¹²⁾	—	—	—	—	—
Liu Guolin ⁽¹²⁾	—	—	—	—	—
Gu Linfu ⁽¹²⁾	—	—	—	—	—
Zhang Jianwei ⁽¹³⁾	—	—	—	—	—
Wu Zhengkui ⁽¹³⁾	—	—	—	—	—
Du Weihua ⁽¹⁴⁾	—	875	56	492	1,423
Wang Xuhua ⁽¹⁵⁾	—	406	49	532	987
	<u>600</u>	<u>7,736</u>	<u>886</u>	<u>3,491</u>	<u>12,713</u>

* The amount of director fee was nil, except for the independent director fee disclosed.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

52. DIRECTORS’ AND SUPERVISORS’ EMOLUMENTS—continued

For the year ended December 31, 2014

<u>Name</u>	<u>Independent director fee*</u>	<u>Salary and allowances</u>	<u>Employer’s contribution to pension schemes</u>	<u>Discretionary bonuses</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Directors:					
Pan Xinjun ⁽¹⁾	—	1,800	300	106	2,206
Wu Jianxiong ⁽¹⁶⁾	—	—	—	—	—
Jin Wenzhong ⁽¹⁾	—	1,980	330	2,750	5,060
Zhang Qian ⁽³⁾	—	—	—	—	—
Wu Junhao ⁽³⁾	—	—	—	—	—
Zhou Donghui ⁽³⁾	—	—	—	—	—
Jia Yifan ⁽³⁾	—	—	—	—	—
Xu Chao ⁽³⁾	—	—	—	—	—
Zhou Yao ⁽³⁾	—	—	—	—	—
Chen Bichang ⁽⁴⁾	—	—	—	—	—
Chen Bin ⁽¹⁷⁾	—	—	—	—	—
Li Xiang ⁽¹⁷⁾	—	—	—	—	—
Independent Directors:					
Li Huizhen ⁽⁶⁾	100	—	—	—	100
Lu Xiongwen ⁽⁷⁾	100	—	—	—	100
Chen Xinyuan ⁽⁸⁾	120	—	—	—	120
Li Zhiqiang ⁽⁹⁾	120	—	—	—	120
Zhou Daojiong ⁽¹⁰⁾	80	—	—	—	80
Xu Guoxiang ⁽¹⁸⁾	50	—	—	—	50
Tao Xiuming ⁽¹⁹⁾	20	—	—	—	20
Wei Anning ⁽¹⁹⁾	20	—	—	—	20
Supervisors:					
Song Xuefeng ⁽²⁾	—	—	—	—	—
Xiao Yintao ⁽¹¹⁾	—	1,500	300	106	1,906
Jiang Jiawang ⁽¹¹⁾	—	806	158	857	1,821
Li Bin ⁽²⁰⁾	—	225	—	—	225
Liu Wenbin ⁽¹²⁾	—	—	—	—	—
Liu Guolin ⁽¹²⁾	—	—	—	—	—
Gu Linfu ⁽¹²⁾	—	—	—	—	—
Zhang Jianwei ⁽¹³⁾	—	—	—	—	—
Yin Keding ⁽²¹⁾	—	—	—	—	—
Wu Zhengkui ⁽¹³⁾	—	—	—	—	—
Du Weihua ⁽¹⁴⁾	—	1,009	158	885	2,052
Wang Xuhua ⁽¹⁵⁾	—	363	73	506	942
Yao Yuan ⁽²¹⁾	—	51	50	17	118
	<u>610</u>	<u>7,734</u>	<u>1,369</u>	<u>5,227</u>	<u>14,940</u>

* The amount of director fee was nil, except for the independent director fee disclosed.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

52. DIRECTORS’ AND SUPERVISORS’ EMOLUMENTS—continued

For the year ended December 31, 2015

Name	Independent director fee*	Salary and allowances	Employer’s contribution to pension schemes	Discretionary bonuses	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive Directors:					
Pan Xinjun ⁽¹⁾	—	1,800	330	106	2,236
Jin Wenzhong ⁽¹⁾	—	1,980	363	2,505	4,848
Non-executive Directors:					
Wu Jianxiong ⁽¹⁶⁾	—	—	—	—	—
Zhang Qian ⁽³⁾	—	—	—	—	—
Wu Junhao ⁽³⁾	—	—	—	—	—
Xu Chao ⁽³⁾	—	—	—	—	—
Zhou Yao ⁽³⁾	—	—	—	—	—
Chen Bichang ⁽⁴⁾	—	—	—	—	—
Chen Bin ⁽¹⁷⁾	—	—	—	—	—
Li Xiang ⁽¹⁷⁾	—	—	—	—	—
Independent Non-executive Directors:					
Chen Xinyuan ⁽⁸⁾	—	—	—	—	—
Li Zhiqiang ⁽⁹⁾	120	—	—	—	120
Xu Guoxiang ⁽¹⁸⁾	120	—	—	—	120
Tao Xiuming ⁽¹⁹⁾	120	—	—	—	120
Wei Anning ⁽¹⁹⁾	120	—	—	—	120
Pan Fei ⁽²²⁾	70	—	—	—	70
Supervisors:					
Song Xuefeng ⁽²⁾	—	—	—	—	—
Li Bin ⁽²⁰⁾	—	1,350	203	20	1,573
Liu Wenbin ⁽¹²⁾	—	—	—	—	—
Yin Keding ⁽²¹⁾	—	—	—	—	—
Wu Zhengkui ⁽¹³⁾	—	—	—	—	—
Du Weihua ⁽¹⁴⁾	—	760	193	868	1,821
Zhou Wenwu ⁽²³⁾	—	150	—	250	400
Yao Yuan ⁽²¹⁾	—	319	57	1,185	1,561
	550	6,359	1,146	4,934	12,989

* The amount of director fee was nil, except for the independent director fee disclosed.

- (1) Pan Xinjun was appointed as chairman of the board in January 2010. Jin Wenzhong was appointed as director in September 2010.
- (2) Song Xuefeng was appointed as director in August 2013, and was appointed as chairman of the supervisory board in October 2014.
- (3) Zhang Qian was appointed as director in June 2002. Wu Junhao, Zhou Donghui, Jia Yifan, Xu Chao and Zhou Yao were appointed as director in March 2011. Zhou Donghui and Jia Yifan resigned in October 2014.
- (4) Chen Bichang was appointed as director in March 2012.
- (5) Qiao Zhigang resigned from the position of director in July 2013.
- (6) Li Huizhen was appointed as independent director in March 2011 and resigned in October 2014.
- (7) Lu Xiongwen was appointed as independent director in April 2011 and resigned in October 2014.
- (8) Chen Xinyuan was appointed as independent director in April 2011 and resigned in May 2015.
- (9) Li Zhiqiang was appointed as independent director in March 2011.
- (10) Zhou Daojiong was appointed as independent director in March 2011 and resigned in July 2014.
- (11) Xiao Yintao and Jiang Jiawang were appointed as supervisor in March 2011 and resigned in October 2014.
- (12) Liu Wenbin, Liu Guolin and Gu Linfu were appointed as supervisor in March 2011. Liu Guolin and Gu Linfu resigned in October 2014.
- (13) Zhang Jianwei and Wu Zhengkui were appointed as supervisor in February 2012. Zhang Jianwei resigned in October 2014.
- (14) Du Weihua was appointed as supervisor in February 2012 and resigned in August 2015.
- (15) Wang Xuhua was appointed as supervisor in March 2011 and resigned in October 2014.
- (16) Wu Jianxiong was appointed as director in October 2014.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

52. DIRECTORS’ AND SUPERVISORS’ EMOLUMENTS—continued

- (17) Chen Bin and Li Xiang were appointed as director in October 2014.
- (18) Xu Guoxiang was appointed as independent director in August 2014.
- (19) Tao Xiuming and Wei Anning were appointed as independent director in October 2014.
- (20) Li Bin was appointed as supervisor in November 2014.
- (21) Yin Keding and Yao Yuan were appointed as supervisor in October 2014.
- (22) Pan Fei was appointed as independent director in June 2015.
- (23) Zhou Wenwu was appointed as supervisor in August 2015.

The executive directors’ emoluments shown above were mainly for their services in connection with the management of the affairs of the Group and the Company.

The non-executive independent directors’ emoluments shown above were mainly for their services as directors of the Company.

The supervisors’ emoluments shown above were mainly for their services as supervisors or employees of the Company.

The bonuses are discretionary and are determined by reference to the Company’s and the individuals’ performance.

For the year ended December 31, 2013, 2014 and 2015, no directors or supervisors of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

53. HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, none are directors or supervisors whose emoluments are disclosed in Note 52. Details of the remuneration of the five highest paid employees during the year ended 2013, 2014 and 2015 are as follows:

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Basic salaries and allowances	5,501	7,863	6,236
Discretionary bonuses	23,117	35,395	81,825
Employer’s contribution to pension schemes	112	158	327
	<u>28,730</u>	<u>43,416</u>	<u>88,388</u>

Bonuses are discretionary and are determined by reference to the Group’s and the individuals’ performance. No emoluments have been paid to or receivable by these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended December 31, 2013, 2014 and 2015.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

53. HIGHEST PAID INDIVIDUALS—continued

The emoluments of the highest-paid individuals of the Group fall within the following bands:

	Year ended December 31,		
	2013	2014	2015
Emolument bands			
—HKD 4,000,001 to HKD 4,500,000	1	—	—
—HKD 4,500,001 to HKD 5,000,000	1	—	—
—HKD 5,500,001 to HKD 6,000,000	1	—	—
—HKD 6,500,001 to HKD 7,000,000	1	—	—
—HKD 7,500,001 to HKD 8,000,000	—	1	—
—HKD 10,500,001 to HKD 11,000,000	—	1	—
—HKD 11,000,001 to HKD 11,500,000	—	1	—
—HKD 12,000,001 to HKD 12,500,000	—	1	—
—HKD 12,500,001 to HKD 13,000,000	—	1	—
—HKD 14,000,001 to HKD 14,500,000	—	—	1
—HKD 14,500,001 to HKD 15,000,000	1	—	—
—HKD 15,500,001 to HKD 16,000,000	—	—	1
—HKD 17,500,001 to HKD 18,000,000	—	—	1
—HKD 28,500,001 to HKD 29,000,000	—	—	1
—HKD 33,000,001 to HKD 33,500,000	—	—	1
	<u>5</u>	<u>5</u>	<u>5</u>

54. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Relationship of related party

The Group and major shareholders

Following major shareholders holding more than 5% shares of the Company are considered as related parties of the Group:

	Percentage of shares held As at December 31,		
	2013 %	2014 %	2015 %
申能(集團)有限公司			
Shenergy (Group) Company Limited	38.38	38.38	30.08
上海海煙投資管理有限公司			
Shanghai Haiyan Investment Management Company Limited	7.15	7.15	5.60
上海文匯新民聯合報業（集團）有限公司			
Wenhui Xinmin United Press Group	6.42	6.42	5.03

The Company and subsidiaries

The details of the Company’s subsidiaries is set out in Note 20.

The Group and associates

The details of the associates of the Group is set out in Note 21.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

54. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS—continued

(2) Related party transaction and balances

As at December 31, 2013, 2014 and 2015, the Group had the following material balances with major shareholders and entities under their control:

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Accounts payable to brokerage clients	4,864	70,594	70,657
Bonds payable	800,000	800,000	800,000

For the year ended December 31, 2013, 2014 and 2015, the Group had the following material transaction with major shareholders and entities under their control:

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Commission and fee income	445	1,209	452
Interest expenses	25,502	50,527	50,548

As at December 31, 2013, 2014, 2015, the Group had the following material balances with associates:

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Accounts payable to brokerage clients	2	2	2
Other account payables	—	—	2,115
Other receivables	—	—	118

For the year ended December 31, 2013, 2014 and 2015, the Group had the following material transaction with associates:

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Commission and fee income	40,535	36,721	109,629
Interest expenses	3	2	—

(3) Key management personnel

Remuneration for key management personnel of the Group are as follows:

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Short-term benefits:			
Salaries, allowance and bonuses	24,077	32,862	29,384
Post-employment benefits:			
Employer’s contribution to pension schemes/annuity plans	1,384	2,387	2,134
	<u>25,461</u>	<u>35,249</u>	<u>31,518</u>

APPENDIX I**ACCOUNTANTS’ REPORT**

NOTES TO THE FINANCIAL INFORMATION—continued**55. SEGMENT REPORTING**

Information reported to the Board of Directors, being the chief operating decision maker (hereinafter refer to as the “CODM”) of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group’s basis of organization, whereby the businesses are organized and managed separately as individual strategic business units that offers different products and serves different markets. During 2015, the Board of Directors commended to allocate resources and assess the segment performance based on the revised grouping of operating segments. Accordingly, the Relevant Periods’ segment reporting presentation has been presented in accordance with the new approach adopted by the Board of Directors in the Financial Information.

Specifically, the Group’s reportable and operating segments are as follows:

- (a) Wealth management, which primarily includes fees and commissions earned from providing brokerage and investment advisory services for the trading of stocks, bonds, funds, and warrants, as well as futures on behalf of the customers, and also interest earned from providing margin financing and securities lending services;
- (b) Investment management, which primarily includes management and advisory fees earned from providing asset management, fund management and private equity investment management services to clients, as well as investment gains from private equity and alternative investments;
- (c) Securities sales and trading, which includes investment gains and investment income earned from trading of stocks, bonds, funds, derivatives and other financial products and fees earned from providing related investment research activities;
- (d) Investment banking, which primarily includes commissions and fees earned from equity underwriting and sponsorship, debt underwriting and financial advisory services;
- (e) Headquarters and others, includes head office operations and the overseas business of Hong Kong, including interest income earned and expense incurred for general working capital purpose.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the Relevant Periods.

Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to management, which are consistent with the accounting and measurement criteria in the preparation of the Financial Information.

Segment profit/loss represents the profit earned by/loss incurred by each segment without allocation of income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Segment assets/liabilities are allocated to each segment, excluding deferred tax assets/liabilities. Inter-segment balances eliminations mainly include amount due from/to another segment arising from investing activities’ carried out by a segment for another segment.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

55. SEGMENT REPORTING—continued

The segment information provided to the CODM for the operating segments for the years ended December 31, 2013, 2014 and 2015 are as follows:

Operating segment

For the year ended December 31, 2013

	Wealth management RMB'000	Investment management RMB'000	Securities sales and trading RMB'000	Investment banking RMB'000	Headquarters and others RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results								
Segment revenue	1,637,836	202,105	2,303,873	260,109	244,751	4,648,674	(109,027)	4,539,647
Segment other income and gains	8,872	—	—	(4,695)	48,155	52,332	(5,457)	46,875
Segment revenue and other income	1,646,708	202,105	2,303,873	255,414	292,906	4,701,006	(114,484)	4,586,522
Segment expenses	(1,060,907)	(185,897)	(1,206,192)	(274,241)	(848,825)	(3,576,062)	102	(3,575,960)
Segment result	585,801	16,208	1,097,681	(18,827)	(555,919)	1,124,944	(114,382)	1,010,562
Share of results of associates	—	123,675	—	—	—	123,675	—	123,675
Profit/(loss) before income tax	585,801	139,883	1,097,681	(18,827)	(555,919)	1,248,619	(114,382)	1,134,237
Segment assets and liabilities								
Segment assets	18,652,646	1,725,316	33,581,959	721,159	9,934,635	64,615,715	(3,807,898)	60,807,817
Deferred tax assets	—	—	—	—	—	—	—	44,648
Group's total assets	18,652,646	1,725,316	33,581,959	721,159	9,934,635	64,615,715	(3,807,898)	60,852,465
Segment liabilities	12,498,914	39,184	21,164,216	52,321	10,551,743	44,306,378	678,633	44,985,011
Deferred tax liabilities	—	—	—	—	—	—	—	89,333
Group's total liabilities	12,498,914	39,184	21,164,216	52,321	10,551,743	44,306,378	678,633	45,074,344
Other segment information								
Amounts included in the measure of segment profit or loss:								
Depreciation and amortization	86,903	734	2,414	3,320	58,890	152,261	—	152,261
Provision for/(reversal of) impairment losses	8	94	57,319	(109)	14,516	71,828	—	71,828

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

55. SEGMENT REPORTING—continued

Operating segment—continued

For the year ended December 31, 2014

	Wealth management RMB'000	Investment management RMB'000	Securities sales and trading RMB'000	Investment banking RMB'000	Headquarters and others RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results								
Segment revenue	2,970,526	318,997	3,318,062	512,738	865,622	7,985,945	(173,584)	7,812,361
Segment other income and gains	13,586	—	1,103	434	60,814	75,937	(405)	75,532
Segment revenue and other income	2,984,112	318,997	3,319,165	513,172	926,436	8,061,882	(173,989)	7,887,893
Segment expenses	(1,702,876)	(321,521)	(1,270,338)	(376,926)	(1,503,518)	(5,175,179)	84,848	(5,090,331)
Segment result	1,281,236	(2,524)	2,048,827	136,246	(577,082)	2,886,703	(89,141)	2,797,562
Share of results of associates	—	136,127	—	—	—	136,127	—	136,127
Profit/(loss) before income tax	1,281,236	133,603	2,048,827	136,246	(577,082)	3,022,830	(89,141)	2,933,689
Segment assets and liabilities								
Segment assets	49,508,734	3,470,461	42,635,545	832,406	16,618,355	113,065,501	(5,609,432)	107,456,069
Deferred tax assets	—	—	—	—	—	—	—	74,054
Group's total assets	49,508,734	3,470,461	42,635,545	832,406	16,618,355	113,065,501	(5,609,432)	107,456,069
Segment liabilities	40,556,256	452,429	24,385,154	111,369	22,976,659	88,481,867	(78,605)	88,403,262
Deferred tax liabilities	—	—	—	—	—	—	—	501,363
Group's total liabilities	40,556,256	452,429	24,385,154	111,369	22,976,659	88,481,867	(78,605)	88,403,262
Other segment information								
Amounts included in the measure of segment profit or loss:								
Depreciation and amortization	82,352	734	1,938	4,121	59,520	148,665	—	148,665
Provision for/(reversal of) impairment losses	18	31,249	1,306	(6)	9,541	42,108	(37,155)	4,953

APPENDIX I

ACCOUNTANTS' REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

55. SEGMENT REPORTING—continued

Operating segment—continued

For the year ended December 31, 2015

	Wealth management RMB'000	Investment management RMB'000	Securities sales and trading RMB'000	Investment banking RMB'000	Headquarters and others RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results								
Segment revenue	7,813,734	1,755,788	8,713,871	920,893	1,424,668	20,628,954	(376,350)	20,252,604
Segment other income and gains	18,586	9,133	1,910	24,573	160,377	214,579	(7,908)	206,671
Segment revenue and other income	7,832,320	1,764,921	8,715,781	945,466	1,585,045	20,843,533	(384,258)	20,459,275
Segment expenses	(3,806,542)	(1,051,705)	(1,107,810)	(586,732)	(4,952,913)	(11,505,702)	109,217	(11,396,485)
Segment result	4,025,778	713,216	7,607,971	358,734	(3,367,868)	9,337,831	(275,041)	9,062,790
Share of results of associates	—	436,296	—	—	—	436,296	—	436,296
Profit/(loss) before income tax	4,025,778	1,149,512	7,607,971	358,734	(3,367,868)	9,774,127	(275,041)	9,499,086
Segment assets and liabilities								
Segment assets	92,424,592	8,311,420	60,627,007	1,140,117	59,130,653	221,633,789	(14,053,675)	207,580,114
Deferred tax assets	—	—	—	—	—	—	—	317,448
Group's total assets	—	—	—	—	—	—	—	207,897,562
Segment liabilities	71,819,604	1,644,355	28,467,572	291,394	74,096,467	176,319,392	(4,774,181)	171,545,211
Deferred tax liabilities	—	—	—	—	—	—	—	976,606
Group's total liabilities	—	—	—	—	—	—	—	172,521,817
Other segment information								
Amounts included in the measure of segment profit or loss:								
Depreciation and amortization	54,655	699	2,708	4,811	86,912	149,785	—	149,785
Provision for/(reversal of) impairment losses	744	2,389	2,314	(17)	(5,728)	(298)	(75)	(373)

The Group's non-current assets are mainly located in the PRC (country of domicile). The Group's revenue are substantially derived from its operations in the PRC.

The Group has no single customer which contributes to 10 percent or more of the Group's revenue for the years ended December 31, 2013, 2014 and 2015.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

56. FINANCIAL INSTRUMENTS

Categories of financial instruments

GROUP

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Financial assets			
Available-for-sale financial assets	30,633,859	40,432,418	59,876,720
Financial assets at fair value through profit or loss	5,167,663	7,330,412	31,948,216
Held-to-maturity investments	1,259,208	1,247,202	1,213,999
Loans and receivables	21,350,208	55,735,973	110,678,005
	<u>58,410,938</u>	<u>104,746,005</u>	<u>203,716,940</u>
Financial liabilities			
Financial liabilities at fair value through profit or loss	1,533,053	878,668	3,328,746
Other financial liabilities	43,049,144	86,513,397	164,252,874
	<u>44,582,197</u>	<u>87,392,065</u>	<u>167,581,620</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Financial assets			
Available-for-sale financial assets	29,319,009	39,089,344	55,252,344
Financial assets at fair value through profit or loss	3,375,480	4,934,778	28,168,952
Held-to-maturity investments	1,259,208	1,247,202	1,213,999
Loans and receivables	15,826,864	46,406,082	86,488,004
	<u>49,780,561</u>	<u>91,677,406</u>	<u>171,123,299</u>
Financial liabilities			
Financial liabilities at fair value through profit or loss	136,170	432	2,572,983
Other financial liabilities	39,225,933	79,125,375	140,340,673
	<u>39,362,103</u>	<u>79,125,807</u>	<u>142,913,656</u>

57. FINANCIAL RISK MANAGEMENT

57.1 Risk management overview and organization

(1) Risk management overview

The Group is committed to the philosophy that “everybody is responsible for risk management and compliance creates value.” The Group focuses on building management mechanisms for overall risk and internal controls and fostering a risk management culture. The Group strives to realize organic integration and interlinking of risk management, compliance management and internal control. The Group has established a substantially mature and endogenous overall risk management system and an effective internal control mechanism. The Group’s system covers all businesses, departments, branches and employees and runs through the processes of decision-making, execution, supervision and feedback.

The risk management the Group implements fully covers market risk, credit risk, liquidity risk, operation risk, technique risk, reputational risk, compliance risk, legal risk and ethical risk, etc. realizing the management control in the entire procedure from risk recognition, assessment, supervision to control/controlled-release and reporting risk.

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.1 Risk management overview and organization—continued

(2) Structure of the risk-management organization

The Group is committed to establishing a robust and effective risk management system that features “three lines of defense” approach. The first line of defense is the check-and-balance mechanism of two-person, dual roles, dual responsibilities and position separation in the important front-line positions in each operational department, branch and subsidiary; the second line is inspection and supervision on the compliance and risk management affairs by relevant functional management departments within their range of duties; the third line is overall risk supervision management before, during or after any affair performed by risk supervision and management departments including functional departments of risk management, General Auditing Department and Supervisory Office.

Pursuant to the requirements of the Guidelines for the Internal Control of Securities Firms (《證券公司內部控制指引》) and our own operations, the Group has set up a risk management structure with five levels, comprising: (i) the Board, (ii) the management, (iii) Chief Risk Officer and compliance officer, (iv) each functional unit in charge of risk management, and (v) risk management function for each business department, branch and subsidiary.

57.2 Credit risk

Credit risk mainly refers to the risk of loss arising from the counterparty or a debtor’s failure to meet its contractual obligations in a timely manner. Currently, the Group faces credit risk primarily from the credit risk of financier in the securities financing business and from bond issuers in fixed income investment in the securities investment business.

The Group has established a separate credit risk management system for clients, counterparties and bond issuers, under which the Group assigns and regularly updates credit ratings to them, using a combination of their external credit ratings with their qualifications, trading record, credit record and delivery default record. In margin financing and securities lending, collateralized stock repurchase and repurchase securities trading, the Group has developed client credit rating, credit management, collateral management and monitoring report systems and respond to the potential risks in a timely manner by real-time dynamic position-closing mechanisms. Meanwhile, the Group has strengthened the fundamental analysis of single bonds the Group holds and established an internal bond rating system to prevent credit risk arising from bond investments.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.2 Credit risk—continued

The maximum credit risk exposure of the Group and the Company as follows:

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Advances to customers	2,806,953	9,946,058	14,241,083
Accounts receivable	117,282	131,229	502,401
Other receivables	1,210,739	1,931,060	4,207,384
Available-for-sale financial assets	21,465,188	30,800,011	34,568,621
Financial assets held under resale agreements	2,794,873	13,519,251	26,498,215
Financial assets at fair value through profit or loss	2,674,376	2,964,325	7,617,690
Held-to-maturity investments	1,259,208	1,247,202	1,213,999
Derivative financial assets	51,618	56,766	77,362
Deposits with exchanges and non-bank financial institutions	287,239	756,609	1,060,011
Clearing settlement funds	3,147,075	5,648,617	8,825,404
Cash and bank balances	10,986,047	23,803,149	55,343,507
	<u>46,800,598</u>	<u>90,804,277</u>	<u>154,155,677</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Advances to customers	2,792,976	9,735,315	13,532,052
Accounts receivable	62,317	93,703	190,311
Other receivables	846,257	1,198,495	1,527,698
Available-for-sale financial assets	21,314,738	30,794,750	35,125,699
Financial assets held under resale agreements	2,325,892	12,870,104	26,365,015
Financial assets at fair value through profit or loss	1,146,239	1,417,161	5,361,524
Held-to-maturity investments	1,259,208	1,247,202	1,213,999
Derivative financial assets	51,618	55,909	73,116
Deposits with exchanges and non-bank financial institutions	254,920	704,788	913,792
Clearing settlement funds	1,740,224	3,466,377	6,038,318
Cash and bank balances	7,804,278	18,337,300	37,920,818
	<u>39,598,667</u>	<u>79,921,104</u>	<u>128,262,342</u>

Overall, the Group monitors and manages credit risk at all times, and takes every possible measure to mitigate and control credit risk exposure to an acceptable level.

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk

Market risk is the risk of loss arising from fluctuations in stock prices, interest rates and exchange rates in the securities markets. The Group faces market risk primarily in the Group’s securities investment business. The Group’s business departments, branches and subsidiaries are the first line of defense against market risk. The Group’s risk management functional units are responsible for overall market risk management.

To enhance the management of market risk, the Group currently adopts the following measures:

- Marking-to-market, concentration analysis, impact cost analysis and quantitative risk model and optimization technology, to manage scale, leverage, risk exposure, duration and to establish dynamic-tracking stop-loss mechanisms.
- Identifying the key factors affecting portfolio returns through sensitivity analysis, and evaluating the tolerance of investment portfolios to extreme market fluctuations by using scenario analysis and stress-testing.
- Ensuring diversified and scientific asset allocation, using derivatives such as stock index futures to hedge against risks, and using various investment strategies for hedging.
- Closely monitoring the macroeconomic indicators and trends and significant development in economic policies, and evaluating the systematic risk on investment that may arise from changes in macro factors.
- Setting up an organization for crisis decision-making, implementation and delegation of responsibility, developing contingency plans under various predictable extreme circumstances and managing such crises by grading their severity.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group’s and the Company’s exposure to interest rate risk relates primarily to the Group’s and the Company’s bank balances, advances to customers, clearing settlement funds, available-for-sale financial assets, financial assets at fair value through profit or loss, bonds payables, accounts payable to brokerage clients, borrowings and financial assets sold under repurchase agreements and so on. Management actively monitors the Group’s and the Company’s net interest rate exposure through setting limits on the level of mismatch of interest rate repricing and duration gap and aims at maintaining an interest rate spread, such that the Group and the Company are always in a net interest-bearing asset position and derive net interest income.

Fluctuations of prevailing rate quoted by the People’s Bank of China and Hong Kong Inter-bank offered rate are the major sources of the Group’s and the Company’s cash flow interest rate risk.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Interest rate risk—continued

The tables below summarize the Group’s and the Company’s interest bearing financial assets and liabilities by their remaining terms to repricing or contractual maturity date, whichever is earlier. Other financial assets and liabilities not included below are not exposed to significant interest rate risk.

GROUP

As at December 31, 2013

	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
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial Assets							
Advances to customers	13,977	2,792,976	—	—	—	—	2,806,953
Accounts receivable	—	—	—	—	—	117,282	117,282
Other receivables	—	—	—	—	—	1,210,739	1,210,739
Financial assets held under resale agreements	775,335	52,600	1,329,938	637,000	—	—	2,794,873
Available-for-sale financial assets	196,730	29,892	780,313	6,759,996	13,698,257	9,168,671	30,633,859
Financial assets at fair value through profit or loss	59,749	151,526	298,187	964,033	1,200,881	2,441,669	5,116,045
Held-to-maturity investments	—	171,874	—	1,037,334	50,000	—	1,259,208
Derivative financial assets	—	—	—	—	—	51,618	51,618
Deposits with exchanges and non-bank financial institutions	287,239	—	—	—	—	—	287,239
Clearing settlement funds	3,147,075	—	—	—	—	—	3,147,075
Cash and bank balances	10,868,776	66,000	51,271	—	—	—	10,986,047
Subtotal	15,348,881	3,264,868	2,459,709	9,398,363	14,949,138	12,989,979	58,410,938
Financial Liabilities							
Bonds payables	—	—	—	4,399,719	—	—	4,399,719
Accounts payable to brokerage clients	10,893,673	—	—	—	—	—	10,893,673
Other account payables and other payables	—	—	—	—	—	226,430	226,430
Due to banks and other financial institutions	3,175,000	240,000	400,000	—	—	—	3,815,000
Short-term financing bills payables	2,500,000	—	—	—	—	—	2,500,000
Financial liabilities at fair value through profit or loss	136,170	—	—	—	—	1,396,883	1,533,053
Financial assets sold under repurchase agreements	18,595,312	84,000	2,535,010	—	—	—	21,214,322
Subtotal	35,300,155	324,000	2,935,010	4,399,719	—	1,623,313	44,582,197
Net interest-bearing position	(19,951,274)	2,940,868	(475,301)	4,998,644	14,949,138	11,366,666	13,828,741

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Interest rate risk—continued

GROUP—continued

As at December 31, 2014

	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
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial Assets							
Advances to customers	210,743	9,735,315	—	—	—	—	9,946,058
Accounts receivable	—	—	—	—	—	131,229	131,229
Other receivables	—	—	166,000	—	—	1,765,060	1,931,060
Financial assets held under resale agreements	1,230,647	900,904	5,905,670	5,482,030	—	—	13,519,251
Available-for-sale financial assets	260,989	575,196	1,019,338	12,844,151	16,100,337	9,632,407	40,432,418
Financial assets at fair value through profit or loss	80,299	214,313	316,428	1,042,401	1,310,884	4,309,321	7,273,646
Held-to-maturity investments	—	171,113	—	1,076,089	—	—	1,247,202
Derivative financial assets	—	—	—	—	—	56,766	56,766
Deposits with exchanges and non-bank financial institutions	756,609	—	—	—	—	—	756,609
Clearing settlement funds . .	5,648,617	—	—	—	—	—	5,648,617
Cash and bank balances . . .	23,756,788	—	46,361	—	—	—	23,803,149
Subtotal	31,944,692	11,596,841	7,453,797	20,444,671	17,411,221	15,894,783	104,746,005
Financial Liabilities							
Borrowings	—	362,894	2,340	—	—	—	365,234
Bonds payables	—	—	—	12,679,834	—	—	12,679,834
Accounts payable to brokerage clients	21,783,072	—	—	—	—	—	21,783,072
Other account payables and other payables	—	—	—	—	—	816,292	816,292
Due to banks and other financial institutions	4,700,000	1,416,000	867,000	—	—	—	6,983,000
Short-term financing bills payables	2,936,540	2,977,001	866,250	—	—	—	6,779,791
Financial liabilities at fair value through profit or loss	—	—	—	—	—	878,236	878,236
Derivative financial liabilities	—	—	—	—	—	432	432
Financial assets sold under repurchase agreements . . .	22,562,435	2,029,732	12,420,507	93,500	—	—	37,106,174
Subtotal	51,982,047	6,785,627	14,156,097	12,773,334	—	1,694,960	87,392,065
Net interest-bearing position	(20,037,355)	4,811,214	(6,702,300)	7,671,337	17,411,221	14,199,823	17,353,940

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Interest rate risk—continued

GROUP—continued

As at December 31, 2015

	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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial Assets							
Advances to customers	709,031	13,532,052	—	—	—	—	14,241,083
Accounts receivable	—	—	—	—	—	502,401	502,401
Other receivables	—	100,000	390,000	63,500	—	3,653,884	4,207,384
Financial assets held under resale agreements	3,178,842	1,861,726	11,247,967	10,209,680	—	—	26,498,215
Available-for-sale financial assets	1,321,700	574,738	456,547	10,600,990	21,614,646	25,308,099	59,876,720
Financial assets at fair value through profit or loss . . .	367,545	603,881	336,702	2,749,519	3,560,043	24,253,164	31,870,854
Held-to-maturity investments	—	199,991	720,087	293,921	—	—	1,213,999
Derivative financial assets	—	—	—	—	—	77,362	77,362
Deposits with exchanges and non-bank financial institutions	1,060,011	—	—	—	—	—	1,060,011
Clearing settlement funds	8,825,404	—	—	—	—	—	8,825,404
Cash and bank balances . . .	55,343,507	—	—	—	—	—	55,343,507
Subtotal	70,806,040	16,872,388	13,151,303	23,917,610	25,174,689	53,794,910	203,716,940
Financial Liabilities							
Borrowings	385,388	383,780	—	—	—	—	769,168
Bonds payables	—	—	4,781,294	35,181,449	11,999,745	—	51,962,488
Accounts payable to brokerage clients	43,193,275	—	—	—	—	—	43,193,275
Other account payables and other payables	—	—	—	—	—	1,851,791	1,851,791
Due to banks and other financial institutions	9,500,000	700,000	—	—	—	—	10,200,000
Short-term financing bills payables	3,881,455	3,827,839	686,767	—	—	—	8,396,061
Financial liabilities at fair value through profit or loss	225,940	222,860	2,011,758	—	—	686,708	3,147,266
Derivative financial liabilities	—	—	—	—	—	181,480	181,480
Financial assets sold under repurchase agreements	24,365,371	2,155,000	10,144,720	11,215,000	—	—	47,880,091
Subtotal	81,551,429	7,289,479	17,624,539	46,396,449	11,999,745	2,719,979	167,581,620
Net interest-bearing position	(10,745,389)	9,582,909	(4,473,236)	(22,478,839)	13,174,944	51,074,931	36,135,320

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Interest rate risk—continued

COMPANY

As at December 31, 2013

	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
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial Assets							
Advances to customers	—	2,792,976	—	—	—	—	2,792,976
Accounts receivable	—	—	—	—	—	62,317	62,317
Other receivables	—	—	—	—	—	846,257	846,257
Financial assets held under resale agreements	306,354	52,600	1,329,938	637,000	—	—	2,325,892
Available-for-sale financial assets	196,730	29,892	780,313	6,709,546	13,598,257	8,004,271	29,319,009
Financial assets at fair value through profit or loss	59,749	86,726	260,008	519,069	220,687	2,177,623	3,323,862
Held-to-maturity investments	—	171,874	—	1,037,334	50,000	—	1,259,208
Derivative financial assets	—	—	—	—	—	51,618	51,618
Deposits with exchanges and non-bank financial institutions	254,920	—	—	—	—	—	254,920
Clearing settlement funds	1,740,224	—	—	—	—	—	1,740,224
Cash and bank balances	7,759,007	—	45,271	—	—	—	7,804,278
Subtotal	10,316,984	3,134,068	2,415,530	8,902,949	13,868,944	11,142,086	49,780,561
Financial Liabilities							
Bonds payables	—	—	—	4,397,975	—	—	4,397,975
Accounts payable to brokerage clients	7,712,097	—	—	—	—	—	7,712,097
Other account payables and other payables	—	—	—	—	—	173,435	173,435
Due to banks and other financial institutions	3,175,000	240,000	400,000	—	—	—	3,815,000
Short-term financing bills payables	2,500,000	—	—	—	—	—	2,500,000
Financial liabilities at fair value through profit or loss	136,170	—	—	—	—	—	136,170
Financial assets sold under repurchase agreements	18,150,416	—	2,477,010	—	—	—	20,627,426
Subtotal	31,673,683	240,000	2,877,010	4,397,975	—	173,435	39,362,103
Net interest-bearing position	(21,356,699)	2,894,068	(461,480)	4,504,974	13,868,944	10,968,651	10,418,458

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Interest rate risk—continued

COMPANY—continued

As at December 31, 2014

	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
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial Assets							
Advances to customers	—	9,735,315	—	—	—	—	9,735,315
Accounts receivable	—	—	—	—	—	93,703	93,703
Other receivables	—	—	—	—	—	1,198,495	1,198,495
Financial assets held under resale agreements	592,330	890,074	5,905,670	5,482,030	—	—	12,870,104
Available-for-sale financial assets	260,989	575,196	1,019,338	12,838,890	16,100,337	8,294,594	39,089,344
Financial assets at fair value through profit or loss	—	113,306	238,519	462,112	603,224	3,461,708	4,878,869
Held-to-maturity investments	—	171,113	—	1,076,089	—	—	1,247,202
Derivative financial assets	—	—	—	—	—	55,909	55,909
Deposits with exchanges and non-bank financial institutions	704,788	—	—	—	—	—	704,788
Clearing settlement funds	3,466,377	—	—	—	—	—	3,466,377
Cash and bank balances	18,290,939	—	46,361	—	—	—	18,337,300
Subtotal	23,315,423	11,485,004	7,209,888	19,859,121	16,703,561	13,104,409	91,677,406
Financial Liabilities							
Bonds payables	—	—	—	11,778,783	—	—	11,778,783
Accounts payable to brokerage clients	16,328,757	—	—	—	—	—	16,328,757
Other account payables and other payables	—	—	—	—	—	586,268	586,268
Due to banks and other financial institutions	4,700,000	1,416,000	867,000	—	—	—	6,983,000
Short-term financing bills payables	2,936,540	3,007,001	866,250	—	—	—	6,809,791
Derivative financial liabilities	—	—	—	—	—	432	432
Financial assets sold under repurchase agreements	22,155,037	2,029,732	12,380,507	73,500	—	—	36,638,776
Subtotal	46,120,334	6,452,733	14,113,757	11,852,283	—	586,700	79,125,807
Net interest-bearing position . . .	(22,804,911)	5,032,271	(6,903,869)	8,006,838	16,703,561	12,517,709	12,551,599

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Interest rate risk—continued

COMPANY—continued

As at December 31, 2015

	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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial Assets							
Advances to customers	—	13,532,052	—	—	—	—	13,532,052
Accounts receivable	—	—	—	—	—	190,311	190,311
Other receivables	—	—	—	—	—	1,527,698	1,527,698
Financial assets held under resale agreements	3,045,642	1,861,726	11,247,967	10,209,680	—	—	26,365,015
Available-for-sale financial assets	1,909,955	574,738	456,547	10,600,990	21,583,469	20,126,645	55,252,344
Financial assets at fair value through profit or loss . . .	367,545	576,191	226,463	1,389,061	2,802,264	22,734,312	28,095,836
Held-to-maturity investments	—	199,991	720,087	293,921	—	—	1,213,999
Derivative financial assets	—	—	—	—	—	73,116	73,116
Deposits with exchanges and non-bank financial institutions	913,792	—	—	—	—	—	913,792
Clearing settlement funds	6,038,318	—	—	—	—	—	6,038,318
Cash and bank balances . . .	37,920,818	—	—	—	—	—	37,920,818
Subtotal	50,196,070	16,744,698	12,651,064	22,493,652	24,385,733	44,652,082	171,123,299
Financial Liabilities							
Bonds payables	—	—	3,797,902	30,797,489	11,990,334	—	46,585,725
Accounts payable to brokerage clients	26,919,127	—	—	—	—	—	26,919,127
Other account payables and other payables	—	—	—	—	—	1,554,960	1,554,960
Due to banks and other financial institutions	9,500,000	700,000	—	—	—	—	10,200,000
Short-term financing bills payables	3,688,895	3,827,839	282,537	—	—	—	7,799,271
Financial liabilities at fair value through profit or loss	225,940	222,860	2,011,758	—	—	—	2,460,558
Derivative financial liabilities	—	—	—	—	—	112,425	112,425
Financial assets sold under repurchase agreements	24,103,371	2,155,000	9,808,219	11,215,000	—	—	47,281,590
Subtotal	64,437,333	6,905,699	15,900,416	42,012,489	11,990,334	1,667,385	142,913,656
Net interest-bearing position	(14,241,263)	9,838,999	(3,249,352)	(19,518,837)	12,395,399	42,984,697	28,209,643

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Interest rate risk—continued

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing financial assets and liabilities, which covers both the cash flow interest rate risk and fair value interest rate risk. The analysis is prepared assuming the interest bearing financial assets and liabilities outstanding at the end of each respective reporting periods were outstanding for the whole year. When reporting to the management on the interest rate risk, a 50 basis points increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, when considering the reasonably possible change in interest rates.

GROUP

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Profit for the year			
50 basis points increase	(99,650)	(108,078)	(96,757)
50 basis points decrease	<u>100,786</u>	<u>109,879</u>	<u>99,704</u>
Equity			
50 basis points increase	(442,295)	(567,978)	(585,285)
50 basis points decrease	<u>454,386</u>	<u>585,023</u>	<u>603,330</u>

COMPANY

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Profit for the year			
50 basis points increase	(82,030)	(94,169)	(94,804)
50 basis points decrease	<u>82,423</u>	<u>95,020</u>	<u>97,339</u>
Equity			
50 basis points increase	(422,603)	(554,012)	(582,859)
50 basis points decrease	<u>433,894</u>	<u>570,105</u>	<u>600,479</u>

Currency risk

Currency risk refers to the unfavourable volatilities of the Group’s financial condition and cash flows due to the fluctuation of the foreign exchange rates. Except for overseas subsidiaries which hold financial assets that are denominated in foreign currencies different from the relevant group entity’s functional currency, the Group only holds a small amount of foreign currency denominated investment. The management considers the foreign exchange rate risk of the Group is not material as the ratio of the Group’s foreign currency assets and liabilities is minimal.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.3 Market risk—continued

Price risk

Price risk is primarily about the unfavourable changes of share price, gold price, financial derivative instruments prices and commodity price that cause financial losses. Quantitatively, price risk the Group facing is mainly the proportionate fluctuation in the Group’s profits due to the price fluctuation of the trading financial instrument and the proportionate fluctuation in the Group’s equity due to the price fluctuation of the available-for-sale financial instruments. Other than daily monitoring the investment position, trading and earnings indicators, the Group mainly use risk sensitivity indicators, stress testing indicators in daily risk monitoring.

Sensitivity analysis

The analysis below is performed to show the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, funds, derivatives and collective asset management schemes by 10% with all other variables held constant. A positive number below indicates an increase in profit before income tax and other comprehensive income before income tax or vice versa.

GROUP

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Profit before income tax for the year			
Increase by 10%	236,916	415,474	2,167,577
Decrease by 10%	(236,916)	(415,474)	(2,167,577)
Other comprehensive income before income tax for the year			
Increase by 10%	859,880	879,516	2,353,211
Decrease by 10%	(859,880)	(879,516)	(2,353,211)

COMPANY

	Year ended December 31,		
	2013	2014	2015
	RMB’000	RMB’000	RMB’000
Profit before income tax for the year			
Increase by 10%	222,924	351,719	2,046,039
Decrease by 10%	(222,924)	(351,719)	(2,046,039)
Other comprehensive income before income tax for the year			
Increase by 10%	791,170	820,202	1,975,908
Decrease by 10%	(791,170)	(820,202)	(1,975,908)

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.4 Liquidity risk

Liquidity risk refers to securities firms’ potential failure to obtain sufficient funds at reasonable cost to repay liabilities in a timely manner as they become due, meet other payment obligations and satisfy capital requirements in the normal course of business. The Group’s objectives in liquidity risk management are to establish a sound liquidity risk management system and to effectively identify, measure, monitor and control liquidity risk, to ensure that the Group’s liquidity demand can be met at reasonable cost and in a timely manner.

The Group has set up dedicated liquidity risk management functional units, which are responsible for the liquidity management, financing and interest rate management of the Group’s self-owned funds. The Group manages and uses the funds in a concentrated manner and, strategically enlarges and gradually improves the establishment of liquidity management system. The Group also optimizes the efficiency and returns on use of funds, and improves the Group’s ability to prevent liquidity risk. The Group has established an appropriate early warning indicator system, including benchmarks for liquidity coverage and net stable funding ratios, etc., to monitor on a daily basis the particular circumstances or events that could possibly lead to a liquidity crisis. Furthermore, the Group has established a net capital supplementary mechanism to supplement or increase the net capital or short-term working capital as required by the Group’s business development through issuance of subordinated bonds, short-term financing bonds, inter-bank lending, etc. Stress-testing is both periodically and randomly conducted to test the risk control indexes of the Group’s net capital and liquidity to predict and manage liquidity risk in advance.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.4 Liquidity risk—continued

Undiscounted cash flows by contractual maturities of non-derivative financial liabilities

The tables below present the cash flows payable by the Group and the Company within the remaining contractual maturities of non-derivative financial liabilities at the end of each respective periods. The amounts disclosed in the tables are the contractual undiscounted cash flows. The tables include both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from interest rate at the end of respective reporting periods. The liquidity risk of derivative financial liabilities of the Group and Company is insignificant and not disclosed in the table below.

GROUP

As at December 31, 2013

	On Demand	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Short-term financing bills payables . .	—	2,533,346	—	—	—	2,533,346	2,500,000
Due to banks and other financial institutions	—	3,429,796	414,358	—	—	3,844,154	3,815,000
Accounts payable to brokerage clients	10,893,673	—	—	—	—	10,893,673	10,893,673
Financial liabilities at fair value through profit or loss	136,170	—	1,396,883	—	—	1,533,053	1,533,053
Other account payables and other payables	226,430	—	—	—	—	226,430	226,430
Financial assets sold under repurchase agreements	—	18,701,281	2,658,301	—	—	21,359,582	21,214,322
Bonds payables	—	—	291,600	4,983,200	—	5,274,800	4,399,719
	<u>11,256,273</u>	<u>24,664,423</u>	<u>4,761,142</u>	<u>4,983,200</u>	<u>—</u>	<u>45,665,038</u>	<u>44,582,197</u>

As at December 31, 2014

	On Demand	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Borrowings	—	3,340	12,438	366,234	—	382,012	365,234
Short-term financing bills payables . .	—	5,970,610	896,003	—	—	6,866,613	6,779,791
Due to banks and other financial institutions	—	6,162,428	892,422	—	—	7,054,850	6,983,000
Accounts payable to brokerage clients	21,783,072	—	—	—	—	21,783,072	21,783,072
Financial liabilities at fair value through profit or loss	—	—	878,236	—	—	878,236	878,236
Other account payables and other payables	816,292	—	—	—	—	816,292	816,292
Financial assets sold under repurchase agreements	—	24,669,430	12,969,367	100,026	—	37,738,823	37,106,174
Bonds payables	—	—	787,100	14,059,600	—	14,846,700	12,679,834
	<u>22,599,364</u>	<u>36,805,808</u>	<u>16,435,566</u>	<u>14,525,860</u>	<u>—</u>	<u>90,366,598</u>	<u>87,391,633</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.4 Liquidity risk—continued

Undiscounted cash flows by contractual maturities of non-derivative financial liabilities—continued

GROUP—continued

As at December 31, 2015

	On Demand	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Borrowings	—	778,090	—	—	—	778,090	769,168
Short-term financing bills payables	—	7,798,886	710,148	—	—	8,509,034	8,396,061
Due to banks and other financial institutions	—	10,227,519	—	—	—	10,227,519	10,200,000
Accounts payable to brokerage clients	43,193,275	—	—	—	—	43,193,275	43,193,275
Financial liabilities at fair value through profit or loss	—	564,191	2,644,676	—	—	3,208,867	3,147,266
Other account payables and other payables	1,851,791	—	—	—	—	1,851,791	1,851,791
Financial assets sold under repurchase agreements ...	—	26,767,483	10,897,669	11,783,011	—	49,448,163	47,880,091
Bonds payables	—	—	4,986,852	37,236,521	12,467,735	54,691,108	51,962,488
	<u>45,045,066</u>	<u>46,136,169</u>	<u>19,239,345</u>	<u>49,019,532</u>	<u>12,467,735</u>	<u>171,907,847</u>	<u>167,400,140</u>

COMPANY

As at December 31, 2013

	On Demand	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Short-term financing bills payables	—	2,533,346	—	—	—	2,533,346	2,500,000
Due to banks and other financial institutions	—	3,429,796	414,358	—	—	3,844,154	3,815,000
Accounts payable to brokerage clients	7,712,097	—	—	—	—	7,712,097	7,712,097
Financial liabilities at fair value through profit or loss	136,170	—	—	—	—	136,170	136,170
Other account payables and other payables	173,435	—	—	—	—	173,435	173,435
Financial assets sold under repurchase agreements	—	18,171,151	2,599,101	—	—	20,770,252	20,627,426
Bonds payables	—	—	291,600	4,981,456	—	5,273,056	4,397,975
	<u>8,021,702</u>	<u>24,134,293</u>	<u>3,305,059</u>	<u>4,981,456</u>	<u>—</u>	<u>40,442,510</u>	<u>39,362,103</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.4 Liquidity risk—continued

Undiscounted cash flows by contractual maturities of non-derivative financial liabilities—continued

COMPANY—continued

As at December 31, 2014

	On Demand	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing							
bills payables	—	6,000,812	896,003	—	—	6,896,815	6,809,791
Due to banks and other financial institutions	—	6,162,428	892,422	—	—	7,054,850	6,983,000
Accounts payable to brokerage clients	16,328,757	—	—	—	—	16,328,757	16,328,757
Other account payables and other payables . . .	586,268	—	—	—	—	586,268	586,268
Financial assets sold under repurchase agreements	—	24,251,830	12,929,367	80,026	—	37,261,223	36,638,776
Bonds payables	—	—	728,600	13,042,600	—	13,771,200	11,778,783
	<u>16,915,025</u>	<u>36,415,070</u>	<u>15,446,392</u>	<u>13,122,626</u>	<u>—</u>	<u>81,899,113</u>	<u>79,125,375</u>

As at December 31, 2015

	On Demand	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing							
bills payables	—	7,600,186	293,343	—	—	7,893,529	7,799,271
Due to banks and other financial institutions	—	10,227,519	—	—	—	10,227,519	10,200,000
Accounts payable to brokerage clients	26,919,127	—	—	—	—	26,919,127	26,919,127
Financial liabilities at fair value through profit or loss	—	564,191	1,957,967	—	—	2,522,158	2,460,558
Other account payables and other payables . .	1,554,960	—	—	—	—	1,554,960	1,554,960
Financial assets sold under repurchase agreements	—	26,505,484	10,552,915	11,783,011	—	48,841,410	47,281,590
Bonds payables	—	—	3,959,224	32,619,132	12,457,957	49,036,313	46,585,725
	<u>28,474,087</u>	<u>44,897,380</u>	<u>16,763,449</u>	<u>44,402,143</u>	<u>12,457,957</u>	<u>146,995,016</u>	<u>142,801,231</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

57. FINANCIAL RISK MANAGEMENT—continued

57.5 Capital management

The Group’s and the Company’s objectives of capital management are:

- To safeguard the Group’s and the Company’s ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group’s and the Company’s stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC and Hong Kong regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Firms (Revision 2008) (the “Administrative Measures”) issued by CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

1. The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% (“Ratio 1”);
2. The ratio of net capital divided by net assets shall be no less than 40% (“Ratio 2”);
3. The ratio of net capital divided by liabilities shall be no less than 8% (“Ratio 3”);
4. The ratio of net assets divided by liabilities shall be no less than 20% (“Ratio 4”);
5. The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% (“Ratio 5”); and
6. The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% (“Ratio 6”).

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

As at December 31, 2013, 2014 and 2015, the Company has maintained the above ratios as follows:

	2013	2014	2015
Net capital (RMB’000)	11,188,169	11,731,031	25,758,896
Ratio 1	983.47%	618.04%	796.25%
Ratio 2	72.22%	65.07%	76.04%
Ratio 3	35.03%	18.42%	21.50%
Ratio 4	48.51%	28.30%	28.28%
Ratio 5	67.29%	76.20%	83.09%
Ratio 6	245.70%	315.86%	247.07%

The above ratios are calculated based on the underlying financial information prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the PRC.

Certain subsidiaries of the Company are also subject to capital requirements under the PRC and Hong Kong regulations, imposed by the CSRC and the Hong Kong Securities and Futures Commission, respectively.

The capital of the Company mainly comprises its total equity.

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated by the active market quotation or determined in accordance with discounted cash flow method.

The main parameters used in discounted cash flow method for financial instruments held by the Group and the Company that are not measured on a recurring basis include interest rates, foreign exchange rates and counterparty credit spreads, which are all observable and obtainable from open market.

The table below summarises the carrying amounts and expected fair values with obvious variances of those financial assets and liabilities not presented on the Group’s consolidated statement of financial position at their fair values.

GROUP

	As at December 31,					
	2013		2014		2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets						
Held-to-maturity financial assets	1,259,208	1,233,434	1,247,202	1,288,636	1,213,999	1,233,296
Financial liabilities						
Bonds payables						
Corporate bonds	—	—	5,999,541	5,997,628	20,999,369	21,150,753
Subordinated bonds	4,399,719	4,398,761	5,798,532	5,798,544	12,398,814	12,395,608
Income certificates	—	—	—	—	13,816,477	13,812,247
Offshore bonds	—	—	881,761	899,842	4,747,828	4,790,757
Total	4,399,719	4,398,761	12,679,834	12,696,014	51,962,488	52,149,365

COMPANY

	As at December 31,					
	2013		2014		2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Financial assets						
Held-to-maturity financial assets	1,259,208	1,233,434	1,247,202	1,288,636	1,213,999	1,233,296
Financial liabilities						
Bonds payables						
Corporate bonds	—	—	5,986,294	5,997,628	20,979,613	21,150,753
Subordinated bonds	4,397,975	4,398,761	5,792,489	5,798,544	11,789,635	11,795,944
Income certificates	—	—	—	—	13,816,477	13,812,247
Total	4,397,975	4,398,761	11,778,783	11,796,172	46,585,725	46,758,944

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are not measured on a recurring basis—continued

GROUP

As at December 31, 2013

	<u>Level1</u>	<u>Level2</u>	<u>Level3</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Financial assets				
Held to maturity financial assets	237,984	995,450	—	1,233,434
Financial liabilities				
Bonds payables	—	4,398,761	—	4,398,761

As at December 31, 2014

	<u>Level1</u>	<u>Level2</u>	<u>Level3</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Financial assets				
Held to maturity financial assets	233,693	1,054,943	—	1,288,636
Financial liabilities				
Bonds payables	—	12,696,014	—	12,696,014

As at December 31, 2015

	<u>Level1</u>	<u>Level2</u>	<u>Level3</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Financial assets				
Held to maturity financial assets	217,800	1,015,496	—	1,233,296
Financial liabilities				
Bonds payables	12,153,600	39,995,765	—	52,149,365

COMPANY

As at December 31, 2013

	<u>Level1</u>	<u>Level2</u>	<u>Level3</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Financial assets				
Held to maturity financial assets	237,984	995,450	—	1,233,434
Financial liabilities				
Bonds payables	—	4,398,761	—	4,398,761

As at December 31, 2014

	<u>Level1</u>	<u>Level2</u>	<u>Level3</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Financial assets				
Held to maturity financial assets	233,693	1,054,943	—	1,288,636
Financial liabilities				
Bonds payables	—	11,796,172	—	11,796,172

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are not measured on a recurring basis—continued

COMPANY—continued

As at December 31, 2015

	<u>Level1</u>	<u>Level2</u>	<u>Level3</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Financial assets				
Held to maturity financial assets	217,800	1,015,496	—	1,233,296
Financial liabilities				
Bonds payables	<u>12,153,600</u>	<u>34,605,344</u>	<u>—</u>	<u>46,758,944</u>

The fair values of the financial assets and financial liabilities included in the level 2 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 amortized cost in the Group and the Company’s statements of financial position approximate their fair values.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the financial assets and financial liabilities are measured at fair value at the end of each of the Relevant Periods. The following tables give information about how the fair values of these financial assets and financial liabilities are determined including their fair value hierarchy, valuation technique(s) and key input(s) use.

GROUP

Financial assets / financial liabilities	Fair value as at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	December 31, 2013	December 31, 2014	December 31, 2015				
Financial assets / financial liabilities							
I) Available-for-sale financial assets							
Debt securities							
—Traded on stock exchanges	12,322,823	18,050,103	15,293,588	Level 1	Quoted bid price in an active market.	N/A	N/A
—Traded on inter-bank market	9,142,365	12,749,908	19,275,033	Level 2	Discounted cash flow. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
Equity securities							
—Traded on stock exchanges	3,993,272	3,195,634	5,281,031	Level 1	Quoted bid price in an active market.	N/A	N/A
—Traded on stock exchanges (inactive)	—	116,109	402,058	Level 2	Recent transaction prices.	N/A	N/A
—Restricted shares	448,548	255,301	384,082	Level 3	Discounted cash flow. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Discounted for lack of marketability.	The higher the discount, the lower the fair value.
Funds							
—Traded on stock exchanges	421,712	464,598	529,800	Level 1	Quoted bid price in an active market.	N/A	N/A
—Other funds	140,094	—	924,555	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Other investments							
—Collective asset management schemes issued by financial institutions	3,595,178	4,763,514	16,010,585	Level 2	Shares of the net value of the products, determined with reference to the net asset value of the products, calculated by observable(quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	<u>30,063,992</u>	<u>39,595,167</u>	<u>58,100,732</u>				

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis—continued

GROUP—continued

Financial assets / financial liabilities	Fair value as at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	December 31, 2013	December 31, 2014	December 31, 2015				
Financial assets at FVTPL							
Debt securities							
—Traded on stock exchanges	1,188,790	1,281,954	2,297,226	Level 1	Quoted bid price in an active market.	N/A	N/A
—Trade on inter-bank market	1,485,586	1,682,371	5,320,464	Level 2	Discounted cash flows. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
Equity securities							
—Traded on stock exchanges	1,627,071	2,880,606	4,495,503	Level 1	Quoted bid price in an active market.	N/A	N/A
—Traded on stock exchanges (inactive)	—	342,782	3,133,777	Level 2	Recent transaction prices.	N/A	N/A
Funds							
—Traded on stock exchanges	101,488	145,979	196,035	Level 1	Quoted bid price in an active market.	N/A	N/A
—Other funds	581,523	775,721	16,028,797	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Other investments							
—Collective asset management schemes issued by financial institutions	131,587	164,233	399,052	Level 2	Shares of the net value of the products, determined with reference to the net asset value of the products, calculated by observable(quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Financial liabilities at FVTPL							
Debt securities							
—Trade on inter-bank market	136,170	—	225,940	Level 2	Discounted cash flows. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
Gold borrowing	—	—	2,234,618	Level 1	Quoted bid price in an active market.	N/A	N/A
Interests attributable to other holders of consolidated structured entities	1,396,883	878,236	686,708	Level 2	Shares of the net value of the products, determined with reference to the net asset value of the products, calculated by observable(quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	1,533,053	878,236	3,147,266				

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis—continued

GROUP—continued

Financial assets / financial liabilities	Fair value as at			Fair value as hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	December 31, 2013	December 31, 2014	December 31, 2015				
Financial assets / financial liabilities							
4)Derivative financial instruments							
Interest rate swaps-assets	51,618	55,909	56,474	Level 2	Discounted cash flows. Future cash flows are estimated based in forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Stock index futures-assets	—	857	1,413	Level 1	Quoted bid price in an active market.	N/A	N/A
Equity return swaps-assets	—	—	14,661	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the company and the counterparty.	N/A	N/A
Stock options-assets	—	—	1,981	Level 2	Calculated based on option pricing model, in consideration of contract term, the volatility, the discount rate, and quoted value of underlying assets.	N/A	N/A
Over the counter options-liabilities	—	(425)	—	Level 2	Calculated based on option pricing model, in consideration of contract term, the volatility, the discount rate, and quoted value of underlying assets.	N/A	N/A
Embedded option instruments-liabilities	—	(7)	(153)	Level 2	The fair value was determined with reference to the market or recent transaction prices of underlying assets.	N/A	N/A
Gold swaps-liabilities	—	—	(112,272)	Level 1	Quoted bid prices in an active market.	N/A	N/A
Currency swaps-assets	—	—	2,833	Level 2	Discounted cash flows. Future cash flows are estimated based on spot exchange rates (from observable spot exchange rates at the end of the reporting period) and spot exchange rates.	N/A	N/A
Currency swaps-liabilities	—	—	(69,055)	Level 2	Discounted cash flows. Future cash flows are estimated based on spot exchange rates (from observable spot exchange rates at the end of the reporting period) and spot exchange rates.	N/A	N/A
	<u>51,618</u>	<u>56,334</u>	<u>(104,118)</u>				

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis—continued

COMPANY

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	December 31, 2013	December 31, 2014	December 31, 2015			
1) Available-for-sale financial assets						
Debt securities						
—Traded on stock exchanges	12,202,371	18,044,842	15,293,588	Level 1	Quoted bid price in an active market.	N/A
—Traded on inter-bank market	9,112,367	12,749,908	19,832,111	Level 2	Discounted cash flow. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A
Equity securities						
—Traded on stock exchanges	3,993,272	3,195,634	4,969,985	Level 1	Quoted bid price in an active market.	N/A
—Restricted shares	136,293	255,301	384,082	Level 3	Discounted cash flow. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	The higher the discount, the lower the fair value
Funds						
—Traded on stock exchanges	380,129	464,598	529,800	Level 1	Quoted bid price in an active market.	N/A
—Other funds	140,094	—	37,418	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A
Other investments						
—Collective asset management schemes issued by financial institutions	3,261,914	4,286,492	13,837,791	Level 2	Shares of the net value of the products, determined with reference to the net asset value of the products, calculated by observable(quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A
	29,226,440	38,996,775	54,884,775			
2) Financial assets at FVTPL						
Debt securities						
—Traded on stock exchanges	146,680	137,699	335,818	Level 1	Quoted bid price in an active market.	N/A
—Traded on inter-bank market	999,559	1,279,462	5,025,706	Level 2	Discounted cash flows. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A
Equity securities						
—Traded on stock exchanges	1,591,693	2,595,402	3,635,812	Level 1	Quoted bid price in an active market.	N/A
—Traded on stock exchanges (inactive)	—	342,782	3,106,206	Level 2	Recent transaction prices.	N/A

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis—continued

COMPANY—continued

Financial assets / financial liabilities	Fair value as at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	December 31, 2013	December 31, 2014	December 31, 2015				
2) Financial assets at FVTPL—continued							
Funds							
—Traded on stock exchanges	13,656	—	3,135	Level 1	Quoted bid price in an active market.	N/A	N/A
—Other funds	561,422	461,902	15,650,193	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Other investments							
—Collective asset management schemes issued by financial institutions	10,852	61,622	338,966	Level 2	Shares of the net value of the products, determined with reference to the net asset value of the products, calculated by observable(quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	3,323,862	4,878,869	28,095,836				
3) Financial liabilities at FVTPL							
Debt securities							
—Traded on inter-bank market	136,170	—	225,940	Level 2	Discounted cash flows. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
Gold borrowing	—	—	2,234,618	Level 1	Quoted bid price in an active market.	N/A	N/A
	136,170	—	2,460,558				
4) Derivative financial instruments							
Interest rate swaps-assets	51,618	55,909	56,474	Level 2	Discounted cash flows. Future cash flows are estimated based in forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis—continued

COMPANY—continued

	Fair value as at			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	December 31, 2013	December 31, 2014	December 31, 2015				
Financial assets / financial liabilities							
4) Derivative financial instruments—continued							
Equity return swaps-assets	—	—	14,661	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the company and the counterparty.	N/A	N/A
Stock options-assets	—	—	1,981	Level 2	Calculated based on option pricing model, in consideration of contract term, the volatility, the discount rate, and quoted value of underlying assets.	N/A	N/A
Over the counter options-liabilities	—	(425)	—	Level 2	Calculated based on option pricing model, in consideration of contract term, the volatility, the discount rate, and quoted value of underlying assets.	N/A	N/A
Embedded option instruments-liabilities	—	(7)	(153)	Level 2	The fair value was determined with reference to the market or recent transaction prices of underlying assets.	N/A	N/A
Gold swaps-liabilities	—	—	(112,272)	Level 1	Quoted bid prices in an active market.	N/A	N/A
	51,618	55,477	(39,309)				

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

GROUP

As at December 31, 2013

	Level1 RMB’000	Level2 RMB’000	Level3 RMB’000	Total RMB’000
Financial assets:				
Available-for-sale financial assets				
—Debt securities	12,322,823	9,142,365	—	21,465,188
—Equity investments	3,993,272	—	448,548	4,441,820
—Funds	421,712	140,094	—	561,806
—Others	—	3,595,178	—	3,595,178
Financial assets at FVTPL				
—Debt securities	1,188,790	1,485,586	—	2,674,376
—Equity investments	1,627,071	—	—	1,627,071
—Funds	101,488	581,523	—	683,011
—Others	—	131,587	—	131,587
Derivative financial assets	—	51,618	—	51,618
Total	19,655,156	15,127,951	448,548	35,231,655
Financial liabilities:				
Financial liabilities at FVTPL	—	1,533,053	—	1,533,053

As at December 31, 2014

	Level1 RMB’000	Level2 RMB’000	Level3 RMB’000	Total RMB’000
Financial assets:				
Available-for-sale financial assets				
—Debt securities	18,050,103	12,749,908	—	30,800,011
—Equity investments	3,195,634	116,109	255,301	3,567,044
—Funds	464,598	—	—	464,598
—Others	—	4,763,514	—	4,763,514
Financial assets at FVTPL				
—Debt securities	1,281,954	1,682,371	—	2,964,325
—Equity investments	2,880,606	342,782	—	3,223,388
—Funds	145,979	775,721	—	921,700
—Others	—	164,233	—	164,233
Derivative financial assets	857	55,909	—	56,766
Total	26,019,731	20,650,547	255,301	46,925,579
Financial liabilities:				
Financial liabilities at FVTPL	—	878,236	—	878,236
Derivative financial liabilities	—	432	—	432
Total	—	878,668	—	878,668

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

GROUP—continued

As at December 31, 2015

	Level1 RMB’000	Level2 RMB’000	Level3 RMB’000	Total RMB’000
Financial assets:				
Available-for-sale financial assets				
—Debt securities	15,293,588	19,275,033	—	34,568,621
—Equity investments	5,281,031	402,058	384,082	6,067,171
—Funds	529,800	924,555	—	1,454,355
—Others	—	16,010,585	—	16,010,585
Financial assets at FVTPL				
—Debt securities	2,297,226	5,320,464	—	7,617,690
—Equity investments	4,495,503	3,133,777	—	7,629,280
—Funds	196,035	16,028,797	—	16,224,832
—Others	—	399,052	—	399,052
Derivative financial assets	1,413	75,949	—	77,362
Total	28,094,596	61,570,270	384,082	90,048,948
Financial liabilities:				
Financial liabilities at FVTPL	2,234,618	912,648	—	3,147,266
Derivative financial liabilities	112,272	69,208	—	181,480
Total	2,346,890	981,856	—	3,328,746

COMPANY

As at December 31, 2013

	Level1 RMB’000	Level2 RMB’000	Level3 RMB’000	Total RMB’000
Financial assets:				
Available-for-sale financial assets				
—Debt securities	12,202,371	9,112,367	—	21,314,738
—Equity investments	3,993,272	—	136,293	4,129,565
—Funds	380,129	140,094	—	520,223
—Others	—	3,261,914	—	3,261,914
Financial assets at FVTPL				
—Debt securities	146,680	999,559	—	1,146,239
—Equity investments	1,591,693	—	—	1,591,693
—Funds	13,656	561,422	—	575,078
—Others	—	10,852	—	10,852
Derivative financial assets	—	51,618	—	51,618
Total	18,327,801	14,137,826	136,293	32,601,920
Financial liabilities:				
Financial liabilities at FVTPL	—	136,170	—	136,170

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

COMPANY—continued

As at December 31, 2014

	Level1 RMB’000	Level2 RMB’000	Level3 RMB’000	Total RMB’000
Financial assets:				
Available-for-sale financial assets				
—Debt securities	18,044,842	12,749,908	—	30,794,750
—Equity investments	3,195,634	—	255,301	3,450,935
—Funds	464,598	—	—	464,598
—Others	—	4,286,492	—	4,286,492
Financial assets at FVTPL				
—Debt securities	137,699	1,279,462	—	1,417,161
—Equity investments	2,595,402	342,782	—	2,938,184
—Funds	—	461,902	—	461,902
—Others	—	61,622	—	61,622
Derivative financial assets	—	55,909	—	55,909
Total	24,438,175	19,238,077	255,301	43,931,553
Financial liabilities:				
Derivative financial liabilities	—	432	—	432

As at December 31, 2015

	Level1 RMB’000	Level2 RMB’000	Level3 RMB’000	Total RMB’000
Financial assets:				
Available-for-sale financial assets				
—Debt securities	15,293,588	19,832,111	—	35,125,699
—Equity investments	4,969,985	—	384,082	5,354,067
—Funds	529,800	37,418	—	567,218
—Others	—	13,837,791	—	13,837,791
Financial assets at FVTPL				
—Debt securities	335,818	5,025,706	—	5,361,524
—Equity investments	3,635,812	3,106,206	—	6,742,018
—Funds	3,135	15,650,193	—	15,653,328
—Others	—	338,966	—	338,966
Derivative financial assets	—	73,116	—	73,116
Total	24,768,138	57,901,507	384,082	83,053,727
Financial liabilities:				
Financial liabilities at FVTPL	2,234,618	225,940	—	2,460,558
Derivative financial liabilities	112,272	153	—	112,425
Total	2,346,890	226,093	—	2,572,983

There were no transfers between instruments in Level 1 and Level 2 during the relevant period.

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

58. FAIR VALUE OF FINANCIAL INSTRUMENTS—continued

The following table represents the changes in Level 3 available-for-sale financial assets for the Relevant periods.

GROUP

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At the beginning of the year	243	448,548	255,301
Changes in fair value recognized in other comprehensive income	238,074	79,273	19,311
Purchases	210,231	195,063	364,528
Transfers out of level 3	—	(467,583)	(255,058)
At the end of the year	<u>448,548</u>	<u>255,301</u>	<u>384,082</u>

COMPANY

	As at December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At the beginning of the year	243	136,293	255,301
Changes in fair value recognized in other comprehensive income	75,750	59,995	19,311
Purchases	60,300	195,063	364,528
Transfers out of level 3	—	(136,050)	(255,058)
At the end of the year	<u>136,293</u>	<u>255,301</u>	<u>384,082</u>

APPENDIX I

ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

59. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of certain assets and liabilities of the Group based on the remaining contractual maturity as at December 31, 2013, 2014 and 2015 is as follows:

GROUP

	Repayable on demand	Less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<u>As at December 31, 2013</u>						
Assets						
Advances to customers	—	2,806,953	—	—	—	2,806,953
Accounts receivable	117,282	—	—	—	—	117,282
Other receivables and prepayments	1,210,739	—	—	—	—	1,210,739
Debt securities classified as:						
Financial assets at fair value through profit or loss	—	157,339	282,611	882,018	1,352,408	2,674,376
Available-for-sale financial assets	—	376,328	1,093,121	6,206,456	13,789,283	21,465,188
Held-to-maturity investments	—	—	—	1,209,208	50,000	1,259,208
Financial assets held under resale agreements	—	2,157,873	451,000	186,000	—	2,794,873
Deposits with exchanges and non-bank financial institutions	287,239	—	—	—	—	287,239
Clearing settlement funds	3,147,075	—	—	—	—	3,147,075
Cash and Bank balances	10,866,776	119,271	—	—	—	10,986,047
	<u>15,629,111</u>	<u>5,617,764</u>	<u>1,826,732</u>	<u>8,483,682</u>	<u>15,191,691</u>	<u>46,748,980</u>
Liabilities						
Due to banks and other financial institutions	—	3,815,000	—	—	—	3,815,000
Accounts payable to brokerage clients	10,893,673	—	—	—	—	10,893,673
Other account payables and other payables	226,430	—	—	—	—	226,430
Short-term financing bills payables	—	2,500,000	—	—	—	2,500,000
Financial liabilities at fair value through profit or loss	136,170	1,396,883	—	—	—	1,533,053
Financial assets sold under repurchase agreement	—	21,214,322	—	—	—	21,214,322
Bonds payables	—	—	—	4,399,719	—	4,399,719
	<u>11,256,273</u>	<u>28,926,205</u>	<u>—</u>	<u>4,399,719</u>	<u>—</u>	<u>44,582,197</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

59. MATURITY PROFILE OF ASSETS AND LIABILITIES—continued

GROUP—continued

	Repayable on demand	Less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<u>As at December 31, 2014</u>						
Assets						
Advances to customers	—	9,946,058	—	—	—	9,946,058
Accounts receivable	131,229	—	—	—	—	131,229
Other receivables and prepayments	1,765,060	166,000	—	—	—	1,931,060
Debt securities classified as:						
Financial assets at fair value through profit or loss	—	309,134	395,030	855,968	1,404,193	2,964,325
Available-for-sale financial assets	—	1,229,664	862,924	12,505,051	16,202,372	30,800,011
Held-to-maturity investments	—	—	920,118	327,084	—	1,247,202
Financial assets held under resale agreements	—	8,037,221	4,231,860	1,250,170	—	13,519,251
Deposits with exchanges and non-bank financial institutions	756,609	—	—	—	—	756,609
Clearing settlement funds	5,648,617	—	—	—	—	5,648,617
Cash and Bank balances	23,756,788	46,361	—	—	—	23,803,149
	<u>32,058,303</u>	<u>19,734,438</u>	<u>6,409,932</u>	<u>14,938,273</u>	<u>17,606,565</u>	<u>90,747,511</u>
Liabilities						
Borrowings	—	2,340	362,894	—	—	365,234
Due to banks and other financial institutions	—	6,983,000	—	—	—	6,983,000
Accounts payable to brokerage clients	21,783,072	—	—	—	—	21,783,072
Other account payables and other payables	816,292	—	—	—	—	816,292
Short-term financing bills payables	—	6,779,791	—	—	—	6,779,791
Financial liabilities at fair value through profit or loss	—	878,236	—	—	—	878,236
Financial assets sold under repurchase agreement	—	37,012,674	—	93,500	—	37,106,174
Bonds payables	—	—	800,000	11,879,834	—	12,679,834
	<u>22,599,364</u>	<u>51,656,041</u>	<u>1,162,894</u>	<u>11,973,334</u>	<u>—</u>	<u>87,391,633</u>

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ACCOUNTANTS’ REPORT

NOTES TO THE FINANCIAL INFORMATION—continued

59. MATURITY PROFILE OF ASSETS AND LIABILITIES—continued

GROUP—continued

	Repayable on demand	Less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<u>As at December 31, 2015</u>						
Assets						
Advances to customers	—	14,241,083	—	—	—	14,241,083
Accounts receivable	502,401	—	—	—	—	502,401
Other receivables and prepayments	3,653,884	490,000	63,500	—	—	4,207,384
Debt securities classified as:						
Financial assets at fair value through profit or loss	—	941,485	1,017,312	1,955,536	3,703,357	7,617,690
Available-for-sale financial assets	—	1,636,237	2,221,408	8,884,774	21,826,202	34,568,621
Held-to-maturity investments	—	920,078	73,921	220,000	—	1,213,999
Financial assets held under resale agreements	—	16,288,535	6,013,500	4,196,180	—	26,498,215
Deposits with exchanges and non-bank financial institutions	1,060,011	—	—	—	—	1,060,011
Clearing settlement funds	8,825,404	—	—	—	—	8,825,404
Cash and Bank balances	55,343,507	—	—	—	—	55,343,507
	<u>69,385,207</u>	<u>34,517,418</u>	<u>9,389,641</u>	<u>15,256,490</u>	<u>25,529,559</u>	<u>154,078,315</u>
Liabilities						
Borrowings	—	383,780	385,388	—	—	769,168
Due to banks and other financial institutions	—	10,200,000	—	—	—	10,200,000
Accounts payable to brokerage clients	43,193,275	—	—	—	—	43,193,275
Other account payables and other payables	1,851,791	—	—	—	—	1,851,791
Short-term financing bills payables	—	8,396,061	—	—	—	8,396,061
Financial liabilities at fair value through profit or loss	—	3,147,266	—	—	—	3,147,266
Financial assets sold under repurchase agreements	—	36,665,091	7,495,000	3,720,000	—	47,880,091
Bonds payables	—	4,781,294	20,272,415	14,909,034	11,999,745	51,962,488
	<u>45,045,066</u>	<u>63,573,492</u>	<u>28,152,803</u>	<u>18,629,034</u>	<u>11,999,745</u>	<u>167,400,140</u>

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ACCOUNTANTS’ REPORT

B. SUBSEQUENT EVENTS

On March 11, 2016, based on the total A shares of 5,281,742,921 of the Company, the Board proposed the cash dividends of RMB3.50 (tax inclusive) every 10 shares distributed to all the shareholders. The proposal is subject to approval by the general meeting of shareholders.

Pursuant to the “Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax” (Cai Shui [2016] No.36) issued by the Ministry of Finance and the State Administration of Taxation in March 2016, the Group will be subject to value-added tax instead of business tax starting from May 1, 2016. The Group is assessing the potential impacts of the newly implemented scheme.

C. DIRECTORS’ AND SUPERVISORS’ EMOLUMENTS

Same as disclosed in this report, no other payments have been paid or are payable in respect of the Relevant Periods by the Company or any of its subsidiaries to the directors and supervisors.

D. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statement of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to December 31, 2015 and up to the date of this report.

Yours Faithfully,

[Deloitte Touche Tohmatsu]
Certified Public Accountants
Hong Kong__

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX II

[REDACTED]

[REDACTED]

APPENDIX III

TAXATION AND FOREIGN EXCHANGE

TAXATION OF EQUITY HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in the [REDACTED] and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date of publication of this document, as well as on the Agreement Between the U.S. and the PRC for Avoidance of Double Taxation (the “Treaty”) all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of this document, an “Eligible U.S. Holder” is any beneficial owner of H Shares that (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment in the PRC in connection with H Shares and through which the beneficial owner conducts or had conducted business (or, in the case of an individual, provides or had provided independent personal services) and (iii) is otherwise eligible for benefits under the Treaty with respect to income and gain derived from the H Shares.

This section of this document does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are advised to consult their tax advisors regarding the tax consequences of holding and disposing of H Shares in the PRC, Hong Kong and other jurisdictions.

PRC TAXATION

Income Tax—Dividends

Individual Investors

According to the Individual Income Tax Law of the People’s Republic of China (《中華人民共和國個人所得稅法》) (the “Individual Income Tax Law”) enacted by the Standing Committee of the Fifth National People’s Congress on September 10, 1980 and recently amended on June 30, 2011 and effective on September 1, 2011 and the Implementation Regulations of Individual Income Tax Law of the People’s Republic of China (the “Implementation Regulations”) recently amended by the State Council on July 19, 2011 and effective on September 1, 2011, dividends paid by PRC companies to individual investors are generally subject to a PRC withholding tax at a flat rate of 20%. For non-Chinese resident individual investors, dividend income from a PRC company is normally subject to an individual income tax of 20% unless specially exempted by the competent tax authority of the State Council or reduced in accordance with an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa [1993] No.045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (Guo Shui Han [2011] No. 348) promulgated by the State Administration of Taxation on June 28, 2011, foreign resident individual investors are entitled to enjoy the preferential tax treatments in accordance with the tax treaties entered into between their respective countries and the PRC and the regulations of tax arrangements between the Mainland of China and Hong Kong (Macau) for shares issued in public offerings by non-foreign invested PRC enterprises in Hong Kong. Generally, PRC individual income tax at the rate of 10% will be withheld from dividends paid by a non-foreign invested PRC enterprise (the “Relevant Non-Foreign Invested PRC Enterprise”) such as the Company to foreign individual

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TAXATION AND FOREIGN EXCHANGE

investors (the “Relevant Individual Investors”) holding shares publicly offered by the Relevant Non-foreign PRC Enterprise in Hong Kong, and no application for approval from the taxation authority in the PRC is required. In case the 10% tax rate is not applicable (e.g., if the individual non-PRC shareholder and the tax rate applicable to such shareholder can be identified by the paying company), the Relevant Non-Foreign Invested PRC Enterprise shall:

- (i) apply on behalf of the investors for lower tax rates if the countries or regions of the Relevant Individual Investors have entered into tax treaties or tax arrangements with the PRC with tax rates lower than 10%, and arrange for refund of over payment upon review and approval by the competent tax authority;
- (ii) withhold the tax at such rates as agreed if the countries or regions of the relevant individual investors have entered into tax treaties or tax arrangements with the PRC with tax rates higher than 10% but lower than 20%, and no application is required;
- (iii) withhold the tax at the rate of 20% if the countries or regions of the Relevant Individual Investors have not entered into any tax treaties (tax arrangements) with the PRC or otherwise.

According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (Guo Shui Han [2006] No. 884) with respect to income tax entered into between mainland China and Hong Kong on August 21, 2006, the PRC government may impose tax on dividends payable by a PRC company to Hong Kong residents subject to a maximum of 10% of the gross amount of dividends payable, or 5% for Hong Kong residents holding not less than 25% equity interest in the PRC company upon application for approval by the PRC tax authority.

Enterprises

According to the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法》) (the “EIT Law”) and the Provisions for Implementation of Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法實施條例》) promulgated by the Standing Committee of the Tenth National People’s Congress on March 16, 2007 and effective as of January 1, 2008, non-resident enterprises are subject to 10% enterprise tax on income from the PRC provided that the non-resident enterprises do not have established institutions in the PRC, or that the income has no connection with the established institutions of the non-resident enterprises in the PRC. Upon application and approval, such withholding tax may be reduced pursuant to an applicable Avoidance of Double Taxation treaty.

According to the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises H Shareholders Which are Overseas Enterprises (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation and effective as of November 6, 2008, PRC resident enterprises such as the Company must withhold enterprise income tax at a rate of 10% on dividends distributed to non-resident enterprise shareholders of H shares for 2008 and thereafter. Upon application and approval, such withholding tax may be reduced pursuant to an applicable avoidance of double taxation treaty upon approval.

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Tax Treaties

Investors who reside in countries, which have entered into Avoidance of Double Taxation treaties with the PRC may be entitled to a reduction of withholding tax on dividends to investors by PRC companies. The PRC currently has avoidance of double taxation treaties with many countries worldwide, including but not limited to: Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Foreign enterprises which are entitled to a reduction of withholding tax according to the relevant income tax treaties or arrangements must apply to the PRC tax authority for refund of the withholding payments, which exceed the tax rate of the relevant treaties, and the refund payments will be made upon approval by the PRC tax authority.

Income Tax—Transfer of Shares

Individual Investors

In accordance with the Implementation Rules on Individual Income Tax (《個人所得稅法實施條例》), PRC resident individuals are subject to individual income tax at the rate of 20% on gains from the transfer of equity interests in PRC resident enterprises. The Implementation Rules on Individual Income Tax also provide that the Ministry of Finance (MOF) shall propose measures for collection of individual income tax on income from the transfer of shares and enact such measures upon approval by the State Council. However, no such measures have been proposed or enacted by the MOF. Under the Notice of the Ministry of Finance and State Administration of Taxation on Several Preferential Policies in Respect of Enterprise Income Tax (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) jointly issued on March 30, 1998, income of individuals from transfer of shares in listed enterprises continues to be exempted from individual income tax since January 1, 1997. Although it is not certain whether such exemption is applicable to H shares, to the best of our knowledge, in practice the PRC tax authorities have not sought to collect tax on such gains from the transfer of shares by non-PRC residents.

Enterprises

According to the EIT Law and the Implementation Rules of the EIT Law, non-resident enterprises, which have not established organizations or premises in the PRC, or if established, the income derived is not actually associated with such organizations or premises, are subject to an enterprise income tax of 10% on gains originated from the PRC, such as gains from sales of shares in a PRC enterprise. The tax may be reduced or eliminated pursuant to an applicable tax treaty.

Stamp Duty

Pursuant to the Provisional Regulations of the People’s Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例》) which became effective on October 1, 1988, PRC stamp duty on the transfer of shares of PRC listed companies does not apply to the acquisition and disposal of H Shares by non-PRC investors outside the PRC.

Estate Tax

According to the existing laws of the PRC, non-PRC residents are not subject to estate tax for the holding of H Shares.

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HONG KONG TAXATION

Tax on Dividends

Under the current practices of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Trading gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable, and no estate duty clearance papers are needed for the application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

TAXATION OF THE COMPANY IN THE PRC

Income Tax

In accordance with the EIT Law, enterprises and other institutions established in the PRC shall be subject to enterprise income tax at the rate of 25%.

Business Tax

Pursuant to the PRC Provisional Regulations on Business Tax (《中華人民共和國營業稅暫行條例》) recently amended on November 5, 2008 and effective from January 1, 2009 and the relevant

APPENDIX III

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implementation rules, a business tax of 3% to 20% is imposed on enterprises for taxable services, transfer of intangible assets, or disposal of real estate. Financial insurance enterprises are subject to business tax at the rate of 5%.

Value-added Tax

Pursuant to the “Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax” (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No.36) issued by the Ministry of Finance and the State Administration of Taxation on March 23, 2016, the financial enterprise will be subject to value-added tax at the rate of 6% instead of business tax starting from May 1, 2016.

FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible. The SAFE under the PBOC is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the Regulation of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) (the “Foreign Exchange Regulation”), which was subsequently amended on January 14, 1997 and August 5, 2008, respectively. Pursuant to the Foreign Exchange Regulation, all international payments and transfers are classified into current account items and capital account items. Most of the current account items are no longer subject to the approval of SAFE, while capital account items still are.

Pursuant to the Regulations on the Management of Settlement, Sales and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) promulgated by the PBOC on June 20, 1996, which took effect on July 1, 1996, the existing restrictions on convertibility of foreign exchange in respect of current account items in the PRC were abolished, while the restrictions on foreign exchange transactions in respect of capital account items remained unchanged.

On July 21, 2005, the PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi exchange rate was no longer pegged to the U.S. dollar only, and the exchange rate mechanism for Renminbi became more flexible. The PBOC would announce the price of a foreign currency such as the U.S. dollar against Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day. Such closing exchange rates will be used as the middle exchange rate of the currency against Renminbi on the following working day. Since January 4, 2006, the PBOC improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-maker system in the inter-bank foreign exchange market.

In accordance with the Foreign Exchange Regulation, the foreign exchange income of current account items may be retained or sold to financial institutions engaging in the sales and settlement of foreign exchange. Foreign exchange income of capital account items may be retained or sold to

APPENDIX III

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financial institutions engaging in the sales and settlement of foreign exchange if so approved by the competent foreign exchange administrative authority, unless it is exempted under the laws of the PRC.

PRC enterprises (including foreign-invested enterprises), which require foreign exchange for transactions relating to current account items may, without approval of SAFE, effect payment from their foreign exchange account or convert and pay at designated foreign exchange banks with the provision of valid receipts and proof of transactions. Foreign-invested enterprises, which need foreign exchange for distribution of profits to their shareholders, and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign exchange, may effect payment from their foreign exchange account, or with the provision of required documents, may convert and pay at designated foreign exchange banks according to the resolutions of shareholders’ meetings or board meetings on the distribution of profits.

Dividends to investors of H Shares shall be denominated in Renminbi but shall be paid in Hong Kong dollars. The reporting currency of the Company consolidated financial statements is Renminbi.

In accordance with the Decision of the State Council on Canceling or Adjusting a Group of Administrative Approval Items and Other Matters (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued by the State Council and effective from November 24, 2014, the remittance and settlement of foreign exchange from the [REDACTED] raised from the issue of overseas [REDACTED] shares by a domestic company are no longer subject to approval by the SAFE or its branches.

In accordance with the Notice on Relevant Issues of Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》) issued by SAFE and effective on December 26, 2014, a domestic enterprise shall register with the local branch of the SAFE at the place of its incorporation within 15 working days after the completion of its overseas IPO. The [REDACTED] from overseas [REDACTED] may be remitted to the domestic account or deposited in an overseas account. The [REDACTED] shall be used in accordance with this document and other disclosure documents.

APPENDIX IV

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

This appendix sets forth summaries of certain aspects of PRC laws and regulations which are relevant to the operations and business of the Company. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix III—Taxation and Foreign Exchange” to this document. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and the summary of additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

THE PRC LEGAL SYSTEM

The PRC legal system is composed of the constitution, laws, administrative regulations, local regulations, rules and regulations of the State Council departments, rules and regulations of local governments, autonomy regulations and special rules of autonomous regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purpose of judicial reference and guidance.

The PRC Constitution (《中華人民共和國憲法》) (“the Constitution”), enacted by the National People’s Congress of the PRC (“NPC”), is the basis of the PRC legal system and has supreme legal authority.

The NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the state. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, state organizations and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on specific circumstances and requirements of their respective administrative areas, provided that such local regulations are not in conflict with the Constitution, laws and administrative regulations. The people’s congresses of major cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of the local administrations, which shall come into effect upon approval of the respective standing committees of the people’s congresses of the provinces and autonomous regions, provided that such local regulations are not in conflict with the Constitution, laws and administrative regulations.

The people’s congresses of autonomous regions may, in light of the local political, economic and cultural characteristics, formulate local regulations and special rules, which shall come into effect upon approval of the Standing Committee of the NPC. The local regulations and special rules may supplement the laws and administrative regulations, provided that the supplements do not contravene the basic principles of the laws and administrative regulations. However, no provisions in the Constitution and laws in relation to regional autonomy as well as other special provisions on regional autonomy in other laws and administrative regulations shall be supplemented by local regulations and special rules.

APPENDIX IV

SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The ministries, commissions, People’s Bank of China, National Audit Office and institutions with administrative functions directly under the State Council may formulate department rules and regulations within the jurisdiction of their respective departments based on the laws and administrative regulations, decisions and rulings of the State Council. Matters governed by departmental rules and regulations should be those for the implementation of the laws and administrative regulations, decisions and rulings of the State Council. The people’s governments of provinces, autonomous regions, municipalities and major cities may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

Pursuant to the Constitution, the interpretation of laws shall be vested in the Standing Committee of the NPC. Pursuant to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People’s Court is empowered to provide general interpretations on questions involving the specific application of laws and decrees in court trials. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People’s Procuratorate. If the interpretations provided by the Supreme People’s Court and the Supreme People’s Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the NPC for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and the competent departments. In cases where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people’s congresses of provinces, autonomous regions and municipalities, which have formulated these regulations, shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent departments under the people’s government of provinces, autonomous regions and municipalities.

THE PRC JUDICIAL SYSTEM

Pursuant to the Constitution and the Law of Organization of the People’s Courts of the PRC (《中華人民共和國人民法院組織法》) enacted on July 1, 1979, recently amended on October 31, 2006 and effective on January 1, 2007, the judicial bodies of the PRC consist of the Supreme People’s Court, local people’s courts, military courts and other special people’s courts. The local people’s courts are comprised of the basic people’s courts, the intermediate people’s courts and the higher people’s courts. The basic people’s courts include civil, criminal and commercial courts, and certain people’s courts are set based on the regions, population and case situation as needed. The intermediate people’s courts also include civil, criminal and commercial courts and it may establish additional courts to handle other issues. The people’s courts at lower levels are subject to supervision of the people’s courts at higher levels. The Supreme People’s Court is the highest judicial body in the PRC and has the power to supervise the trials by the local people’s courts of all levels and all special people’s courts. The people’s procuratorates also have the right to exercise legal supervision over the trials of people’s courts.

The people’s courts adopt the “second instance as final” appellate system. A party may appeal against the judgment or ruling of the people’s court of first instance to the people’s courts of the immediate higher level in accordance with the legal procedures. The people’s procuratorate may appeal to the people’s court at the immediate higher level in accordance with the legal procedures. In the absence of appeal by any parties to the case or the people’s procuratorate within a stipulated period, the

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judgment and ruling of the first instance by the local people’s courts shall be final and legally binding upon the expiry of appeal or protest period. Judgments and rulings of the second instance of the intermediate people’s courts, the higher people’s courts and the Supreme People’s Court and the judgments and rulings of the first instance of the Supreme People’s Court shall be the final judgments and orders. Death penalty shall be reported to the Supreme People’s Court for approval, unless it is adjudged by the Supreme People’s Court.

If the president of a people’s court finds, in a legally effective judgment or ruling of his court, some definite error in the determination of facts or application of law, he must submit such judgment or ruling to the judicial committee for processing. If the Supreme People’s Court finds some definite error in a legally effective judgment or ruling of the people’s court at any levels or if the people’s court at a higher level finds such error in a legally effective judgment or ruling of the people’s court at a lower level, it has the authority to review the case itself or to direct the lower-level people’s court to conduct a retrial. If the Supreme People’s Procuratorate finds some definite error in a legally effective judgment or ruling of a people’s court at any levels or if the people’s procuratorate of a higher level finds such error in a legally effective judgment or order of any people’s court at a lower level, it has the authority to lodge an appeal in accordance with the procedure of judicial supervision.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the “Civil Procedure Law”) was adopted on April 9, 1991, recently amended on August 31, 2012 and effective on January 1, 2013, sets forth the criteria for instituting a civil action, the jurisdiction of the people’s courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law.

Generally, a civil case is initially heard by a local court of the place in which the defendant resides. The parties to a contract or any other dispute involving property rights may, in their written contract, select the people’s court of the place where the defendant holds domicile, where the contract is performed, where the contract is signed, where the plaintiff holds domicile or where the object of the action is located or other locations which have substantial connections with the dispute to exercise jurisdiction over the case, provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated. Foreigners, stateless persons, foreign enterprises and organizations shall have the same litigation rights and obligations as citizens, legal persons and other organizations of the People’s Republic of China. If the courts of a foreign country impose restrictions on the civil litigation rights of the citizens, legal persons and other organizations of the People’s Republic of China, the people’s courts of the PRC shall follow the principle of reciprocity regarding the civil litigation rights of the citizens, enterprises and organizations of that foreign country. Where any party to a civil action refuses to comply with a judgment or order made by a people’s court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people’s court to request enforcement of the judgment, order or award. The right to apply for enforcement may be exercised within two years. Where a person fails to satisfy a judgment of the court within the stipulated time, the court will, upon application by either party, enforce the judgment.

Where a party applies for enforcement of a legally effective judgment or order made by a people’s court, and the opposite party or his property is not within the territory of the People’s Republic of China, the applicant may directly apply to a competent foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. If a legally effective judgment

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or order made by a foreign court requires recognition and enforcement by a people’s court of the PRC, the party concerned may directly apply to the intermediate people’s court of the PRC, which has jurisdiction for recognition and enforcement. Upon receipt of an application or request for recognition and enforcement of a legally effective judgment or order of a foreign court, the people’s court shall recognize the validity of the judgment or order if it considers that it will not contravene the basic principles of the laws of the PRC nor violates its sovereignty, security or social and public interests after having examined the international treaties entered into or acceded to by the PRC or having considered the principle of reciprocity. A writ of enforcement will be issued in accordance with the relevant regulations. If the judgment or order contravenes the basic principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people’s court shall not recognize and enforce it.

If an award made by a foreign arbitral body requires the recognition and enforcement by a people’s court of the PRC, the party concerned shall directly apply to the intermediate people’s court of the place where the party subjected to enforcement holds domicile or where his property is located. The people’s court shall deal with the matter in accordance with the international treaties entered into or acceded to by the PRC or having considered the principle of reciprocity.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

The PRC Company Law (《中華人民共和國公司法》) (“the Company Law”) was promulgated on December 29, 1993 by the Standing Committee of the NPC, amended on December 28, 2013 and became effective on March 1, 2014. It regulates the organization and operation of companies and protects the legal rights and interests of companies and their shareholders and creditors. The latest amendment to the Company Law in 2013 has lifted the requirement of minimum registered capital. Paid-up registered capital was also replaced by subscribed registered capital.

The Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (“Special Regulations”) were promulgated by the Standing Committee of the State Council, and became effective on August 4, 1994. The Special Regulations are formulated according to the 1993 Company Law in respect of the overseas share subscription and [REDACTED] of joint stock limited companies. The Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (“Mandatory Provisions”) were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be [REDACTED] overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in “Appendix V—Summary of Articles of Association”). The word “company” in this Appendix refers to a joint stock company established to issue H shares under the Company Law. Copies of the Chinese versions of the Company Law, Special Regulations and Mandatory Provisions together with copies of their unofficial English translations are available for inspection as mentioned in “Appendix VII—Documents Delivered to the Registrar of Companies and Available for Inspection” to this Document.

Major provisions of the Company Law, Special Regulations and Mandatory Provisions are summarized below.

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General

A company is a legal person incorporated as a joint stock company under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the assets owned by it.

The restructuring of a state-owned enterprise into a company must comply with the conditions and requirements of the certain laws and administrative regulations in relation to the modification of operation mechanisms, management system, evaluation of assets and liabilities and the establishment of internal management structure.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by two to 200 promoters, and at least half of them must reside in the PRC. Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of the company unless otherwise required by laws and regulations, and the remaining shares shall be offered to the public or specific persons,.

For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. The company shall not raise capital from others before the promoters fully pay the capital subscribed by them. For companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 15 days before the meeting give notice to all subscribers or make a public announcement of the date of the inaugural meeting. The quorum of the inaugural meeting shall be the shareholders holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the inaugural meeting mainly include the review of articles of association proposed by the promoter(s) and the election of members of the board of directors and the supervisory committee of the company. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting. Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for the registration of the establishment of the company. The company shall be formally established and have the status of a legal person upon the approval for registration is granted and a business license is issued.

Upon establishment, any shortfall of the share capital of a company as determined by its articles of association shall be paid up by the relevant promoters, and other promoters shall bear joint and several liabilities. Where the actual value of any non-monetary capital contribution for the establishment of a company is significantly lower than the value required by the articles of association, the promoter of such contribution shall make up the shortfall, and other promoters shall bear joint and several liabilities.

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Promoter(s) of a company shall have the following liabilities:

They shall bear the joint and several liabilities for all the debts and expenses incurred for the incorporation if the company fails to be incorporated;

They shall bear the joint and several liabilities for refunding the subscription moneys paid by subscribers, plus interest at the prevailing bank deposit rate during the period if the company fails to be incorporated; and

They shall bear the liability to compensate the company if the interests of the company are impaired due to the fault of the promoters in the process of incorporation.

Share Capital

The promoters of a company can make capital contributions in cash or non-monetary assets, such as intellectual property rights or land use rights, that can be valued in currency and transferable according to laws based on their appraised value, except for assets prohibited by laws or administrative regulations to be contributed as capital.

If a capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out without any overvaluation or undervaluation. Where the laws or administrative regulations in place have any other provisions on valuation, such provisions shall prevail.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and [REDACTED] overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currencies.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan and [REDACTED] overseas are known as overseas [REDACTED] foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares.

Under the Special Regulations, upon approval of the CSRC, a company may agree with the [REDACTED] in the [REDACTED] in respect of an overseas [REDACTED] foreign invested shares, to retain not more than 15% of the aggregate number of overseas [REDACTED] foreign invested shares outside the [REDACTED] amount.

The issuance of shares shall be conducted in a fair and equitable manner. Shares of the same class shall rank pari passu in all respects, and share certificates of the same class in the same issue shall be issued on the same conditions and at the same price. Every corporate subscriber or individual shall pay the same price for each share. A shares may be issued at a price equal to or higher than but not less than the par value.

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Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in Shareholders’ meeting.

Save for the above-mentioned shareholder approval requirement, for a [REDACTED] of new shares, the Securities Law provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have sustainable profitability and a healthy financial position; (iii) have no false statements and other material non-compliance in the financial and accounting documents of last three years; (iv) fulfill other conditions required by the securities administration department of the State Council.

[REDACTED] requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish newspaper announcement of the reduction within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may require the company to pay its debts or to provide guarantees covering the debts within 30 days upon receipt of the notice, or (if no notice is received) within 45 days from the date of the announcement; and
- (v) the company must apply to the company registration authority for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its registered capital;
- (ii) merging with another company holding its shares;
- (iii) granting shares as a reward to its staff; or
- (iv) purchasing the company’s own shares as requested by shareholders who vote against the resolution regarding the merger or division of the company at shareholders’ meeting.

Where the company purchases its own shares for the purposes referred to in (i) to (iii) above, it shall obtain approval of shareholders’ general meeting. Following acquisition as aforementioned, the

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shares shall be canceled within 10 days from acquisition under the circumstance referred to in (i) and transferred or canceled within 6 months under the circumstances referred to in (ii) and (iv) above.

Shares acquired by the company for the purpose referred to in (iii) shall not exceed 5% of the total number of shares of the company in issue. Such acquisition shall be financed by funds from the profit after tax of the company. The shares so acquired shall be transferred to the employees within one year.

The company shall not accept its own shares as the subject of a pledge.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations.

Registered shares may be transferred by means of endorsement by shareholders or by such other means as provided by laws or administrative regulations. Following the transfer, the company shall enter the name and address of the transferee into the share register. No changes of registration in the share register shall be effected during a period of 20 days prior to the shareholders’ meeting or five days prior to the record date on which the company determined for dividend distribution, except for changes of registration in the share register of listed companies otherwise provided in laws, which shall be followed.

The transfer of bearer share shall take effect by delivery of the share certificate from the shareholder to the transferee.

Shares of the company held by a promoter may not be transferred within one year from the incorporation of the company. Directors, supervisors and senior management of a company shall report to the company his / her shareholdings in the company and changes thereof and shall not transfer more than 25% of the total number of shares he / she held in the company during his / her terms of office. He / she shall not transfer the shares of the company held by him / her within six months from the date he / she leaves the company. The articles of association may have other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and senior management.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company, which are binding on each shareholder. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend shareholders’ meetings in person or by proxy, and to vote in respect of the number of shares held;
- (ii) to transfer shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company’s articles of association, shareholders’ register, records of debentures, minutes of shareholders’ meetings, board resolutions, supervisory committee resolutions, financial and accounting reports and to put forward proposals or raise questions about the operations of the company;

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- (iv) to lodge an action in the people’s court if any directors or senior management damages the shareholder’s interests by violating laws or administrative regulations or articles of association of the company;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders’ rights for the damages; and
- (vii) to exercise any other shareholders’ rights specified in the articles of association of the company.

The obligations of a shareholder include the obligation to abide by the company’s articles of association, to pay the monies in respect of the shares subscribed for, to be liable for the company’s debts and liabilities to the extent of his / her capital subscription, not to abuse shareholders’ right to damage the interests of the company or other shareholders of the company, not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders’ obligation specified in the company’s articles of association.

Shareholders’ General Meeting

The shareholders’ general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders’ general meeting exercises the following principle powers in accordance with the Company Law:

- (i) to decide on the company’s operation policies and investment plans;
- (ii) to elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee;
- (v) to consider and approve the company’s annual financial budget and final accounting plans;
- (vi) to consider and approve the company’s proposal for profit distribution and for recovery of losses;
- (vii) to decide on the increase or reduction in the company’s registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution, liquidation or change of the form of company and other matters;
- (x) to decide on the appointment, dismissal and non-reappointment of accounting firm;
- (xi) to amend the articles of association of the company; and
- (xii) to exercise other powers specified in the articles of association of the company.

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A shareholders’ general meeting is required to be held once every year. An extraordinary shareholders’ general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number specified in the Company Law or less than two-thirds of the number specified in the company’s articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company’s total paid-up share capital;
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company’s shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the supervisory committee proposed convening it; or
- (vi) under other circumstances specified by the company’s articles of association.

Shareholders’ general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing his/her duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing his/her duties, a director nominated by more than half of the directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders’ general meeting, the supervisory committee shall convene and preside over the meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, a shareholder holding or shareholders holding in aggregate more than 10% of the total shares of the company for more than 90 consecutive days may unilaterally convene and preside over such meeting.

Notice of the shareholders’ general meeting shall be given to all shareholders 20 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. In accordance with the Special Regulations and the Mandatory Provisions, shareholders who intend to attend shall give written confirmation of their attendance to the company 20 days prior to the meeting.

Shareholders present at a shareholders’ general meeting shall have one vote for each share they hold, however there are no voting rights for any of the shares owned by the company.

Resolutions proposed at the shareholders’ general meeting shall be adopted by more than half of the voting rights case by shareholders present at the meeting (in person or by proxy), with the exception for matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders present at the meeting (in person or by proxy) with two-thirds or more of the voting rights.

Shareholders may entrust a proxy to attend shareholders’ general meetings on his or her behalf by a power of attorney in which the scope of the exercise of voting rights is set forth.

There is no specific provision in the Company Law regarding the quorum for a shareholders’ general meeting. However, the Special Regulations and the Mandatory Provisions provide that a

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company’s annual general meeting may be convened if shareholders holding shares representing 50% or more of the voting rights in the company have replied to attend 20 days before the proposed date of meeting. Otherwise, the company shall hold the annual general meeting within five days after notifying shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas **[REDACTED]** foreign invested shares are deemed to be different classes of shareholders for this purpose.

Holders of bearer shares who intend to attend the shareholders’ general meeting shall deposit their share certificates with the company during the period from five days before the meeting until the close of it.

Board of Directors

A company shall have a board of directors, which shall consist of five to nineteen members, including staff representatives of the company. Under the Company Law, term of office of each director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders’ general meeting and report on its work to the shareholders;
- (ii) to implement the resolutions of the shareholders’ general meeting;
- (iii) to decide on the company’s business plans and investment plans;
- (iv) to formulate the company’s proposed annual financial budget and final accounts;
- (v) to formulate the company’s proposals for profit distribution and recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company’s registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division, dissolution or change of the form of the company;
- (viii) to decide on the company’s internal management structure;
- (ix) to appoint or dismiss the company’s president, and based on the president’s recommendation, to appoint or dismiss vice presidents and financial officers of the company and to decide on their remuneration;
- (x) to decide on the company’s basic management system; and
- (xi) to exercise any other power authorized by the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors shall also be responsible for formulating the proposals for amendment of the articles of association of a company.

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Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he/she may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his/her behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company’s articles of association resulting in serious losses of the company, the directors participating in the resolution shall be liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons shall not serve as a director of the company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debt due and outstanding; and
- (vi) other circumstances under which a person is disqualified from acting as director of a company as set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in “Appendix V—Summary of Articles of Association.”)

The board of directors shall appoint a chairman, who shall be elected by more than half of all directors. The chairman of the board of directors exercises the following powers:

- (i) to preside over shareholders’ general meetings and convene and preside over meetings of the board of directors; and
- (ii) to monitor the implementation of the resolutions of the board of directors.

The legal representative of a company shall be its chairman in accordance with the Mandatory Provisions. The Special Regulations provide that a company’s directors, supervisors, managers and other senior management bear fiduciary duties and the duty to act diligently. The persons stated above are required to abide by the articles of association and faithfully perform their duties, protect the

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interests of the company and shall not use their positions and powers in the company for their personal benefit. The Mandatory Provisions have been incorporated into the Articles of Association, a summary of which is set out in “Appendix V—Summary of Articles of Association.”

Directors shall be accountable to the resolutions of the board of directors. In the circumstance that a resolution of the board of directors violates the laws, administrative regulations or the articles of association of the company, and as a result of which the company sustains serious losses, the directors participating in such resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be relieved from that liability.

Supervisory Committee

The company shall have a supervisory committee composed of not less than three members. The term of office of each supervisor shall be three years, which may be renewed subject to re-election. If the number of supervisors falls below the quorum as the result of the expiration of the office term of a supervisor without re-election in a timely manner or the resignation of a supervisor during his/her term of office, the former supervisor shall continue to perform his/her duties in accordance with the laws, administrative regulations and articles of association until a supervisor is re-elected for replacement. The supervisory committee shall be made up of shareholders representatives and an appropriate proportion of the company’s staff representatives. The percentage of the number of the company’s staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

The supervisory committee is empowered by the Company Law to perform the following duties:

- (i) to examine the company’s financial affairs;
- (ii) to supervise the performance of the directors and senior management for their positions in the company and to propose the removal of directors or senior management who violates the laws, administrative regulations, articles of association or resolutions of shareholders’ general meeting;
- (iii) to require any directors or senior management whose acts are detrimental to the company’s interests to rectify such acts;
- (iv) to propose the convening of extraordinary shareholders’ general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding over shareholders’ general meetings, to convene and preside over shareholders’ general meetings;
- (v) to make proposal to shareholders’ general meetings;
- (vi) to bring action against directors or senior management under a written request of a shareholder holding or shareholders holding in aggregate more than 1% of the total shares of the company for more than 180 consecutive days;
- (vii) to perform other duties specified in the company’s articles of association.

The circumstances under which a person is disqualified from being a director of the company described above shall apply to supervisors of the company.

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Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. All expenses incurred by the supervisory committee in exercising their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least once every six months. The supervisors may propose to convene a interim meeting of the supervisory committee. Resolutions of the supervisory committee require the approval of more than half of all supervisors in accordance with the Company Law. However, in accordance with the Circular Regarding Comments on the Amendments to Articles of Association of Companies Listed in Hong Kong issued by the CSRC on April 3, 1995, resolutions of the supervisory committee require the approval of more than two-thirds of all supervisors. Each supervisor shall have one vote for resolutions to be approved by the supervisory committee. Minutes shall be prepared in respect of matters considered at the meeting of the supervisory committee and supervisors attending the meeting shall sign to such minutes.

Managers and Other Senior Management

The company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and shall perform the following duties:

- (i) to be in charge of the production and operation management of the company and to arrange for the implementation of resolutions of the board of directors;
- (ii) to arrange for the implementation of annual business and investment plans of the company;
- (iii) to formulate plans for the establishment of the internal management structure of the company;
- (iv) to formulate the basic administration system of the company;
- (v) to formulate the internal rules of the company;
- (vi) to recommend the appointment and dismissal of deputy manager(s) and any financial officer;
- (vii) to decide on the appointment or dismissal of the responsible managers other than those who are required to be appointed or dismissed by the board of directors; and
- (viii) to perform other duties assigned by the board of directors or the articles of association of the company.

The Special Regulations and the Mandatory Provisions provide that the other senior management of a company includes the financial officer, secretary to the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above shall apply to the manager and other senior management of the company.

The articles of association of the company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be

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entitled to exercise their rights, apply for arbitration and institute legal proceedings according to the articles of association of the company. The provisions under the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in “Appendix V—Summary of Articles of Association.”

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required by the PRC Company Law to comply with the relevant laws, regulations and the company’s articles of association, carry out their duties honestly and protect the interests of the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the properties of the company. Directors and senior management are prohibited from:

- (i) misappropriating company funds;
- (ii) depositing company funds into accounts under their own name or the name of other individuals;
- (iii) lending company funds to others or providing company properties as guarantees in favor of others in violation of the articles of association or without prior approval of the shareholders’ general meeting or board of directors;
- (iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders’ general meeting or board of directors;
- (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders’ general meeting;
- (vi) accepting commissions from other parties in transactions with the company for their own benefit;
- (vii) disclosing confidential information of the company without approval; or
- (viii) doing other acts in violation of their duty of loyalty to the company.

Directors, supervisors and senior management of the company are also under a duty of confidentiality to the company.

Directors, supervisors and senior management who contravenes any law, regulation or the articles of association of the company in the performance of his/her duties which results in any loss to the company shall be personally liable to the company for such losses.

Where the attendance of a director, supervisor, manager or other senior officer is requested by the shareholders’ general meeting, such director, supervisor, manager or other senior officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior management shall furnish with all truthfulness facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

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A company shall not directly, or through its subsidiaries, provide loans to any director, supervisor or senior management and shall regularly disclose to the shareholders any information regarding remunerations received by the directors, supervisors or senior management of the company.

The Special Regulations and the Mandatory Provisions provide that directors, supervisors and senior management of the company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their personal benefit.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the regulatory finance department of the State Council and shall prepare a financial report at the end of each financial year, which shall be audited and verified as provided by law.

A company shall maintain its financial statements at the company for inspection by shareholders at least 20 days before the convening of the annual general meeting. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year’s after-tax profits, the company shall set aside 10% of its after-tax profits for the company’s statutory surplus reserve (except where the reserve has reached 50% of the company’s registered capital). After making an allocation to its statutory surplus reserve from its after-tax profits, the company may make a contribution to a discretionary common reserve subject to a resolution of the shareholders’ general meeting.

When the statutory reserve of a company is not sufficient to make up its losses of previous years, profits for the current year shall be used to make up the losses before contribution to the statutory surplus reserve is made as aforementioned. After the company has made up its losses and made allocations to its statutory surplus reserve, the remaining profits could be available for distribution to shareholders in proportion to the number of shares held by the shareholders, except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the finance department of the State Council to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up losses of the company other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the capital of the company. But the capital common reserve may not be used to make up losses of the company. When the statutory reserve is converted into capital, the balance of such statutory reserve shall not be less than 25% of the registered capital of the company before such conversion.

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The company shall have no other accounting books except the statutory accounting books. The assets of the company shall not be deposited in any accounts opened in the name of an individual.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC accounting firm, which meets the relevant provisions of the State, to audit company’s annual report and review other financial reports of the company.

The company shall provide relevant materials to the accounting firm it has appointed and respond to the enquiries. The term of office of the auditor shall commence from the close of an annual general meeting and expire at the close of the next annual general meeting.

In accordance with the articles of association of the company, the shareholders’ general meeting or the board of directors shall determine the appointment and dismissal of accountants who are responsible for the company’s auditing issues. The accountant shall be allowed to make representations when the shareholders’ meeting, the shareholders’ general meeting or board of directors of the company is going to conduct a poll on the dismissal of the accountant. The company shall provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant without refusal, concealment or misrepresentation. The term of office of the accountant shall commence from the close of an annual general meeting and expire at the close of the next annual general meeting of the company.

If a company removes or does not re-appoint the auditors, in accordance with the Special Regulations, prior notice shall be given to the accounting firm and the accounting firm is entitled to make representations at the shareholders’ general meeting. If an accounting firm resigns from its position, it shall make representations to the shareholders’ general meeting whether there has been any impropriety on the part of the Company. The shareholders’ general meeting shall determine the appointment, dismissal or non-reappointment of the accounting firm and shall file with the CSRC.

Distribution of Profits

The Company Law provides that a company is restricted from distributing profits before losses have been made up and statutory surplus reserve has been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas [REDACTED] foreign invested shares are required to be denominated and declared in Renminbi and paid in foreign currency. Under the Mandatory Provisions, relevant shareholders are required to receive the dividends and other payables allocated by the company in respect of overseas [REDACTED] foreign shares through a receiving agent.

Amendments to Articles of Association

Any amendments to the company’s articles of association shall be made in accordance with the procedures set forth in the company’s articles of association. Any amendment to the articles of association in connection with the Mandatory Provisions shall only be effective after approval by the companies’ approval department authorized by the State Council and the CSRC. If the amendment relates to the registration of the company, the company shall modify its registration with the company registration authority.

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Dissolution and Liquidation

Under the Company Law, a company shall be dissolved for the following reasons:

- (i) the term of operations set out in the articles of association of the company has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders resolve to dissolve the company at general meeting;
- (iii) the company is dissolved as a result of merger or demerger;
- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or
- (v) in the event that the company encounters difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of its shareholders, and where such circumstance cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders’ voting rights of the company may present a petition to the people’s court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or people determined by the shareholders’ general meeting.

If a liquidation committee is not established within the stipulated period, the company’s creditors may apply to the people’s court for its establishment.

The liquidation committee shall notify the creditors of the company within ten days after its establishment, and issue a newspaper announcement within 60 days. A creditor may lodge his/her claim with the liquidation committee within 30 days after receiving notification or within 45 days since the date of the public announcement if he/she does not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to dispose of the company’s assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of relevant company;
- (iv) to pay any outstanding tax and the tax incurred during the liquidation period;
- (v) to settle the creditor’s financial claims and liabilities;
- (vi) to handle the surplus assets of the company after settlement of debts; and
- (vii) to represent the company in civil lawsuits.

If the company’s assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to their shareholdings.

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During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities after liquidation of the company’s assets and preparing a balance sheet and an inventory of the assets, it shall immediately apply to the people’s court for a declaration for bankruptcy according to the laws. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people’s court.

Upon completion of liquidation of the company, the liquidation committee shall submit a liquidation report to shareholders’ meeting, the shareholders’ general meeting or the people’s court for confirmation, and the report shall be submitted to the registration authority of the company for cancellation of registration. An announcement on termination shall also be issued.

Members of the liquidation committee shall discharge their duties honestly and perform the duties regarding liquidation in accordance with the laws. Members of the liquidation committee shall not abuse their rights to accept bribes or other illegal income and shall not misappropriate the properties of the Company. A member of liquidation committee shall be liable to indemnify the company or its creditors in respect of any loss arising from his/her willful or material default.

Loss of Share Certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people’s court in the event that share certificates registered in form are stolen or lost, for declaration that such certificates will no longer be valid. During such a period, if no one applies for rights, the people’s court will release a declaration of invalidation of such certificates according to the application. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure for the loss of H share certificates. The procedures are incorporated in the Articles of Association, a summary of which is set out in “Appendix V—Summary of Articles of Association.”

Merger and Demerger

Companies may merge through merger by absorption or the establishment of a newly merged corporation. If it merges by absorption, the company which is absorbed, shall be dissolved. If two or more companies merge by forming a new corporation, the merging companies shall be dissolved.

As for corporate merger, all parties to the merger shall enter into an agreement and formulate balance sheets and checklists of assets. The companies involved shall, within ten days after the decision of merger, notify the creditors, and shall make a newspaper announcement within 30 days. The creditors may, within 30 days after the receipt of the notice or (if it fails to receive a notice) within 45 days after the announcement, require the company to settle its debts or to provide corresponding guarantees. In case of a merger, the credits and debts of the companies involved shall be succeeded by the surviving company or by the newly established company.

As for division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of assets shall be prepared. The company shall, within ten days after the decision

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of division, notify the creditors and make a newspaper announcement within 30 days. The post-division companies shall bear joint liabilities for the debts of the former company before division, unless it is otherwise prescribed by written agreements entered into between the company and their creditors for the settlement of debts before the division.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Committee and the CSRC were established by the State Council. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory authority of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities firms, regulating [REDACTED] of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its functions to the CSRC. The CSRC is also responsible for the regulation and supervision all stocks and futures in the PRC market according to laws, regulations and authorizations.

The PRC Securities Law took effect on July 1, 1999 and was revised on August 31, 2014. The revised Securities Law is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities firms and the duties and responsibilities of the securities regulatory authorities under the State Council. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a domestic company which, directly or indirectly, issue securities or [REDACTED] and trades its securities outside the PRC, must obtain prior approval from the State Council’s securities regulatory authorities to [REDACTED] its shares outside the PRC in accordance with the State Council’s policy. Article 239 of the Securities Law provides that specific provisions in respect of shares of domestic companies, which are to be subscribed and traded in foreign currencies, shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

REGULATION ON ANTI-MONEY LAUNDERING

The Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》) became effective on January 1, 2007. It provides for the anti-money laundering duties of the relevant financial regulatory authorities, which include monitoring the capital of anti-money laundering, formulating rules and regulations on anti-money laundering of financial institutions, supervising and reviewing of the fulfillment of anti-money laundering obligations by financial institutions, and investigating, suspicious transactions within the scope of responsibilities. Heads of financial institutions shall be responsible for the effective implementation of anti-money laundering internal control system. Financial institutions shall establish client identification systems and systems for keeping clients’ identity information and transaction records, and report large-sum transactions and doubtful transactions according to applicable requirements.

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According to the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》) which was enacted by the PBOC and came into effect on January 1, 2007, financial institutions and their branches shall establish comprehensive anti-money laundering internal control systems, an anti-money laundering department or designate an internal department responsible for anti-money laundering pursuant to applicable laws. Anti-money laundering internal procedures and control measures shall be formulated. Specific training shall be provided to the staff in order to strengthen the anti-money laundering work.

According to the Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) which was jointly enacted by the PBOC, the CBRC, the CSRC and the CIRC and came into effect on August 1, 2007, financial institutions shall establish client identification systems, and shall record the identities of all clients and the information about each of the transactions, and shall preserve the retail trading documents and books.

According to the Administrative Measures for the Financial Institutions’ Report of Large-sum Transactions and Doubtful Transactions (《金融機構大額交易和可疑交易報告管理辦法》) which was enacted by the PBOC and came into effect on March 1, 2007, the headquarters of financial institutions or their designated departments shall provide electronic reports to the China Anti-money Laundering Monitoring and Analysis Center on all confirmed large-sum transactions and doubtful transactions.

The CSRC also formulated the Implementing Rules of Anti-money Laundering for Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》) which took effect from October 1, 2010 and provides additional anti-money laundering rules for securities and futures industry, and the anti-money laundering liabilities for the institutions carrying on funds sales business in their funds sales activities, and the securities and futures operating institutions should establish anti-money laundering internal control system.

OVERSEAS [REDACTED]

The shares of a company shall only be [REDACTED] overseas after obtaining approval from the securities regulatory authority of the State Council, and the [REDACTED] must be arranged in accordance with the procedures specified by the State Council. According to the Special Regulations, a company’s plan to issue overseas [REDACTED] foreign invested shares and domestic invested shares which has been approved by the securities regulatory authority of the State Council, may be implemented by board of directors by way of separate issues, within 15 months from approval of the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the “Arbitration Law”) was passed by the Standing Committee of the NPC on August 31, 1994 and the newest version was amended on August 27, 2009 with immediate effect. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matters to an arbitration committee constituted in accordance with the Arbitration Law for arbitration. Under the Arbitration Law, an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate provisional arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people’s court shall refuse to handle the case.

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The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in the contracts with each of the directors and supervisors and the company, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the directors, supervisors or senior management; or among shareholders, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or a claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, senior management of us, shall be subject to the arbitration. Disputes in respect of who is shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Center (“HKIAC”) in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the Civil Procedure Law, an arbitral award shall be final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by laws or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》) (the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC to the New York Convention that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity, and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

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In June 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

RULES AND REGULATIONS ON ESTABLISHMENT OF OVERSEAS OPERATIONS

According to the Provisions for Overseas Investment Management (《境外投資管理辦法》) which was promulgated by the MOFCOM and became effective on October 6, 2014, and the Provisions on the Foreign Exchange Administration of the Overseas Private Equity Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) which was issued by the SAFE and became effective on August 1, 2009, upon obtaining approval from MOFCOM to establish enterprises overseas, PRC enterprises must apply for foreign exchange registration for overseas investments.

According to the Measures for the Administration of Confirmation and Recordation of Overseas Investment Projects (《境外投資項目核准和備案管理辦法》) promulgated by the NDRC on May 8, 2014 and amended on December 27, 2014 with immediate effect, overseas investment projects conducted by the PRC enterprises through new establishment, merger, equity participation, capital increase and injection as well as those carried out by their overseas enterprises or institutions through provision of funds or guarantees shall be approved by or filed with the NDRC based on the actual conditions of the overseas investment projects.

According to the PRC Securities Law (《中華人民共和國證券法》) amended on June 29, 2013 with immediate effect and the Regulations on Supervision and Management of Securities Firms (《證券公司監督管理條例》) amended on July 29, 2014 with immediate effect, the establishment, acquisition of or equity participation in securities institutions outside the PRC by securities firms in the PRC shall be subject to approval by the CSRC.

According to the Measures for Administration of Futures Companies (《期貨公司監督管理辦法》) promulgated on October 29, 2014 with immediate effect, the establishment, acquisition or equity participation in overseas futures institutions by futures companies in the PRC shall be in compliance with the relevant conditions and subject to approval from the CSRC.

According to the Regulations on the Establishment of Institutions in Hong Kong by Securities Investment Fund Management Companies Issued by the China Securities Regulatory Commission (《中國證券監督管理委員會關於證券投資基金管理公司在香港設立機構的規定》) which was promulgated and became effective on April 8, 2008, the establishment of institutions or equity participation in asset management institutions in Hong Kong, establishment of institutions and equity participation in asset management institutions in other countries and regions which have entered into memorandums of cooperation with the CSRC by securities investment fund management companies in the PRC are subject to approval from the CSRC.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN COMPANY LAW IN THE PRC AND HONG KONG

Hong Kong company law is primarily set out in the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and is supplemented by common law and rules

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of equity applicable in Hong Kong. Our Company is a joint stock limited liability company established under the PRC Company Law and subject to relevant laws and regulations such as Company Law. Below is summary of material differences between Hong Kong company law applicable to companies incorporated in Hong Kong and the PRC law applicable to joint stock limited companies established in and continuing to exist under the PRC Company Law. However, it is not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to Hong Kong Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company’s articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders (if required), issue new shares of the company.

The PRC Company Law does not provide for authorized share capital. If a joint stock limited company is incorporated by promotion, the registered capital has to be the total share capital subscribed for by all promoters as registered with the company registration authority. If a joint stock limited company is incorporated by public subscription, the registered capital shall be the total paid-up capital as registered with the company registration authority. Any increase in our registered capital must be approved by our shareholders in Shareholders’ meeting and the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authority to [REDACTED] its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets, which could be appraised by money and be legally converted (other than assets not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure there is no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, domestic shares in the share capital of a joint stock company denominated and subscribed for in Renminbi, may only be subscribed for or traded by domestic investors in PRC and

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qualified foreign investors. Since April 2013, investors in Hong Kong, Macau and Taiwan may also open A share accounts. Overseas [REDACTED] foreign shares issued by joint stock limited company, which are denominated in Renminbi and subscribed for in a foreign currency, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, as well as or other qualified domestic investors.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our [REDACTED] cannot be transferred within one year from the [REDACTED] of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the [REDACTED] of the shares, and also cannot be transferred within half a year after the personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company’s shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company’s issue of shares and the 12-month lockup on controlling shareholders’ disposal of shares.

Financial Assistance for Acquisition of Shares

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under Hong Kong company law.

Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances, which are deemed to be variations of class rights, and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the written consent of the holders of three-fourths in nominal value of the shares of the class in question, (iii) by agreement of all the members of the Company, or (iv) if there are provisions in the Articles of Association relating to the variation of those rights, then in accordance with those provisions.

Notice, Quorum and Voting of Shareholder Meetings

Under the PRC Company Law, notice of a shareholder’s annual general meeting must be given not less than 20 days before the meeting, while notice of an extraordinary meeting must be given

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15 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days’ written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a limited company incorporated in Hong Kong, the minimum period of notice of a shareholders’ general meeting convened for the purpose of considering ordinary resolutions, is 14 days and, where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is 21 days.

The PRC Company Law does not specify any quorum requirement for a shareholders’ general meeting, but the Special Regulations and the Mandatory Provisions provide that our Shareholders’ general meeting may be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, we must within five days notify our shareholders by way of a public announcement and we may hold the shareholders’ general meeting thereafter. Under Hong Kong law, the quorum for a shareholders’ general meeting is two members unless the articles of association of the company otherwise provide, but must be at least two members.

Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes cast by our shareholders present in person or by proxy at a shareholders’ general meeting except in cases such as proposed amendments to our Articles of Association, increase or reduction in share capital, merger, division, dissolution or transformation, which require two-thirds of the affirmative votes cast by shareholders present in person or by proxy at a shareholders’ general meeting. Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by members present in person or by proxy at a shareholders’ general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a shareholders’ general meeting.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts, restrictions on directors’ authority in making major dispositions, restrictions on companies providing certain benefits such as guarantees in respect of directors’ liability and prohibitions against compensation for loss of office without shareholders’ approval. The Mandatory Provisions, however, contain certain requirements and restrictions on the abovementioned matters, which are similar to those in Hong Kong law.

Board of Supervisors

Under the PRC Company Law, directors and senior management of the company are subject to the supervision and examination of a board of supervisors. The Board of Supervisors in joint stock limited company includes three or more Supervisors, and the number of the company’s staff representatives supervisors shall not be less than one-third in the board of supervisors. The staff representative supervisors are elected by the staff of the company at the staff representative assembly and staff meeting. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong.

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Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders of the company against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a shareholders’ general meeting, thereby effectively preventing the company from suing the directors for breach of their duties in its own name.

The PRC Company Law stipulates that, in the event of Directors or senior management of a joint stock limited company breaching their fiduciary duties to the company, any of the shareholders who hold 1% or more of the shares individually or jointly for no less than 180 consecutive days shall have the right to request the Board of Supervisors in writing to initiate litigation before the People’s Court. In the event of the board of supervisors breaching their fiduciary duties to the company, any of the shareholders mentioned above may request the Board of Directors in writing to initiate litigation before the People’s Court. In the event that the Board of Supervisors or the Board of Directors dismisses the written request of any of the shareholders as specified in the preceding text, or withholds from instituting litigation within 30 days of the receipt of the request, or that the failure to institute litigation immediately may otherwise cause irreparable damage to the interest of the Company in an urgent circumstance, such shareholder(s) as mentioned in the preceding text shall have the right to initiate litigation before the People’s Court in the name(s) of such shareholder(s) in the interest of the Company.

Protection on Minority Shareholders’ Interests

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his/her interests may petition to the court to either wind up the company or seek an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

There is no provision in the PRC Company Law provided such protection, however, the Mandatory Provisions require that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, may not relieve a director or supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a director or supervisor of our assets or the individual rights of other shareholders.

Financial Disclosure

Under the PRC Company Law, a company is required to make its financial report available at the company for inspection by shareholders 20 days before its annual general meeting. In addition, a listed company must publish its financial condition. Annual balance sheets shall be verified by certified public accountants. Hong Kong Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors’ report, and directors’ report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting.

Company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing

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financial statements according to the PRC GAAP, have its accounts prepared and audited in accordance with international or Hong Kong accounting standards, and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company’s articles of association, minutes of the shareholders’ general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to the shareholders of Hong Kong companies under Hong Kong law.

Receiving Agent

Under both PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive dividends declared on behalf of holders of shares and all other monies owed by the joint stock limited company in respect of its foreign shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies Ordinance (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Division 2 of Part 13 of the Hong Kong Companies Ordinance, which requires the sanction of the court.

Under PRC law, merger, division, dissolution, liquidation or change to the forms of a joint stock limited liability company has to be approved by shareholders in general meeting.

Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant’s choice.

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Mandatory Deductions

Under the PRC Company Law, after taxation the company must draw certain proportion of profit as statutory surplus reserve when distributing profit to the shareholders. The company may not be required to draw the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company’s registered capital. There are no such requirements under Hong Kong law.

Remedies of a Company

Under the PRC Company Law, if a director, or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damages to the company, that director, supervisor or senior management should be responsible to the company for such damages. Such provisions are similar to those available under the Hong Kong law.

Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its overseas [REDACTED] foreign shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors and senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which break the law or compete with or damage the interests of the company.

Closure of Register of Shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year. However, according to the Mandatory Provisions and Special Regulations, no changes in the Register of Shareholders on account of a share transfer may be made within 30 days before the date of a shareholders’ meeting or 5 days before the record date for the dividend distribution.

HONG KONG LISTING RULES

Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeking a primary [REDACTED] or whose primary [REDACTED] is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

Compliance Advisor

A company seeking [REDACTED] on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its [REDACTED] up

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to the date of the publication of its first full financial year’s financial performance, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company’s two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor’s appointment and appoint a replacement. The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended laws, regulations or codes in Hong Kong applicable to the company. It must act as the company’s principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

Accountant’s Report

An accountants’ report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under international audit standards or PRC audit standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises. (For a PRC issuer that adopts China Accounting Standards for Business Enterprises for preparing annual financial statement).

Process Agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are [REDACTED] on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his/her appointment, the termination of his/her appointment and his/her contact particulars.

Public Shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares (“foreign shares”) which are [REDACTED] on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of such foreign shares and other issued securities held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which [REDACTED] is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of [REDACTED] of not less than HK\$50,000,000. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of [REDACTED] of over HK\$10,000,000,000.

Independent Non-Executive Directors and Supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their positions as supervisors.

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Mandatory Provisions

With a view to strengthening the protection on investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary [REDACTED] is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this Document.

Redeemable Shares

The Company shall not issue any redeemable shares, unless the Hong Kong Stock Exchange is satisfied that relative rights of the holders of foreign shares are adequately protected.

Pre-emptive rights

Except in the circumstances mentioned below, the Directors of the Company are required to obtain the approval by a special resolution of shareholders at a Shareholders’ meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at Shareholders’ meetings) at separate class meetings conducted in accordance with the Company’s Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in Shareholders’ meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company’s plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC or other securities regulatory authorities under the State Council.

Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

The Company is required to obtain the approval of its shareholders at a Shareholders’ meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the Company to give more than one year’s notice or to pay compensation or make other payments equivalent to the remuneration of more than one year.

The Remuneration and Nomination Committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders’ approval and

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advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

Amendment to the Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association, which would cause the same to cease to comply with the provisions of the Hong Kong Listing Rules and the Mandatory Provisions or the PRC Company Law.

Documents for Inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company’s latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last fiscal year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic shares and H Shares);
- a copy of the latest annual return filed with State Administration for Industry and Commerce or other authorities of China; and
- for Shareholders only, copies of minutes of meetings of shareholders.

Receiving Agent(s)

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates

The Company is required to ensure that all of its [REDACTED] documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each Shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, and the Articles of Association;

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- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each Shareholder of the Company that the Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his/her behalf with each Director and officer of the Company whereby each such Director and officer undertakes to observe and comply with his/her obligation to Shareholders as stipulated in the Articles of Association.

Compliance with the Provisions of the PRC Company Law, the Special Regulations and the Company’s Articles of Association

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and its Directors, Officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Takeovers Code and the Share Repurchases Code and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his/her office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his/her obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;

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- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto; and
- the disputes concerning the shareholder qualification and share registration can be resolved without resorting to arbitration.

The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

ENGLISH TRANSLATION

All notices or other documents required under the Hong Kong Listing Rules to be sent by China issuer to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

GENERAL

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make [REDACTED] of the H Shares of a PRC issuer subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the [REDACTED].

OTHER LEGAL AND REGULATORY PROVISIONS

Upon the Company’s [REDACTED], the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

SECURITIES ARBITRATION RULES

The Articles of Association provide that certain claims arising from the Articles of Association, the PRC Company Law and other applicable laws shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

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MATTERS CONCERNING CHINA LAW

Grandall Law Firm (Shanghai), our China legal advisor, has issued a legal opinion to us, confirming that they reviewed the summary of the China laws and regulations, as attached in this appendix, and it is accurate. This legal opinion is attached to this document as Appendix VII for reference.

For detailed opinions about China laws and the laws of any jurisdiction, please seek independent legal opinions.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG LISTING RULES AND SSE LISTING RULES

As our A Shares are listed on the Shanghai Stock Exchange, we are also subject to the SSE Listing Rules. Set out below is a summary of the material differences between the Hong Kong Listing Rules and the SSE Listing Rules:

- Periodic financial reporting

There are material differences in financial reporting standards and practices regarding, for example, industry-specific financial reporting requirements, announcement of preliminary results, form and content of periodic financial reports and post-vetting of periodic financial reports.

- Classification and disclosure requirements for notifiable transactions

The method of classification of notifiable transactions under Hong Kong Listing Rules and the disclosure requirement pertaining to such transactions differ from those under the SSE Listing Rules.

- Connected transactions

The definition of a connected person under the Hong Kong Listing Rules and the definition of a related party under the SSE Listing Rules are different. In addition, the disclosure and shareholder approval requirements for connected transactions under the Hong Kong Listing Rules and for related party transactions under the SSE Listing Rules, as well as the respective exemptions are different.

- Disclosure of inside information

The scope, timing and method of disclosure of inside information are different between the Hong Kong Listing Rules and the SSE Listing Rules.

APPENDIX V

SUMMARY OF ARTICLES OF ASSOCIATION

Set out below is a summary of the Articles of Association, the principal objective of which is to provide potential investors with an overview of the Articles of Association. As this appendix is a summary, it may not contain all the information that is important to potential investors.

Scope of Business

The business scope of the Company is: securities brokerage, margin financing and securities lending; securities investment advisory; financial advisory related to securities trading and securities investing activities; securities investment and trading of securities; agency sale of securities investment funds; intermediary introduction business for futures companies; distribution of financial products; securities underwriting (only included treasury bonds, financial bonds of policy Banks, short-term financing bills and medium-term notes); stock option market-making. The business scope of the Company must conform to the items approved by the Company’s registration authority.

Within the scope permitted by laws and regulations, the Company may invest in other limited liability companies or joint-stock limited companies, and is accountable to such investees subject to the capital commitment of the Company. The Company can establish wholly-owned subsidiaries or set up subsidiaries with other investors by joint contributions. The Company may establish a subsidiary engaging in private equity investment business or a subsidiary engaging in other businesses permitted by the securities supervision and administration institution. In accordance with the Articles of Association of the Company, the Company may set up a subsidiary engaging in investment businesses of financial products and others upon consideration by the shareholders’ general meeting or the Board of Directors.

Shares

Shares and Registered Capital

The stock of the Company shall take the form of shares.

The Company shall have common shares at all times. With the approval of the department authorized by the State Council, the Company may have other forms of shares when needed.

The Company shall issue shares in an open, fair and just manner, and each share of the same class shall have the same rights. All shares of the same class issued at the same time shall be issued under the same conditions and at the same price, and every share purchased by any entity or individual shall be at the same price.

Upon approval by the securities regulatory authority of the State Council or other relevant regulatory authorities, the Company may offer its shares to both domestic and foreign investors.

The Board of the Company may make arrangement for separate issue of shares according to the proposals for issue of overseas-[REDACTED] foreign shares and domestic shares upon approval by the securities regulatory authority of the State Council.

If the Company separately issues overseas-[REDACTED] foreign shares and domestic shares within the total number specified in the issue scheme, the said shares shall be issued respectively at one time. If it is impossible for the shares to be issued at one time for special reasons, the shares may be issued by several batches upon approval by the securities regulatory authority of the State Council.

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Transfer of Shares

Unless otherwise specified by the laws and administrative regulations and relevant provisions of the securities regulatory authority at the location where the Company’s shares are listed, shares of the Company may be transferred freely and without any liens. Transfer of overseas-[REDACTED] foreign shares [REDACTED] in Hong Kong shall be registered with the share registry in Hong Kong appointed by the Company.

The Company shall not accept its own shares as pledge object.

The shares of the Company held by the promoters shall not be transferred within one year after incorporation of the Company. Domestic shares issued by the Company before [REDACTED] shall not be transferred within one year after the shares of the Company are listed on the Shanghai Stock Exchange. The Directors, Supervisors, President and other senior management of the Company shall, in their terms of office, periodically report to the Company about their shareholdings and changes thereof and shall not transfer more than 25% of their shares per annum; during their terms of office (except for changes of shares due to judicial enforcement, inheritance, bequest, properties division according to laws). Shares of the Company held by them shall not be transferred within one year after the shares of the Company are listed on the Shanghai Stock Exchange and within 6 months after they terminate service with the Company.

If the Directors, Supervisors, senior management of the Company and shareholders holding more than 5% shares of the Company sell shares within 6 months after buying the same or buy shares within 6 months after selling the same, the gains arising therefrom shall belong to the Company and the Board of the Company will recover the said gains. However, the 6-month restriction shall not apply to a securities firm which holds 5% or more of the Company’s shares as a result of its underwriting of the untaken shares in an offer.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to purchasers or potential purchasers of the Company’s shares for the purpose of the purchase or potential purchase of the Company’s shares. The aforesaid purchasers include persons directly or indirectly undertaking obligations because of the purchase of the Company’s shares.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to the aforesaid obligors for the purpose of reducing or discharging their obligations for the purchase or potential purchase of the Company’s shares unless in the following circumstances:

- (1) the Company provides the relevant financial assistance in the interest of the Company in good faith, and the main purpose of the said financial assistance is not to purchase the Company’s shares, or the said financial assistance is a part of a general plan of the Company;
- (2) the Company distributes its properties as dividends in accordance with the laws;
- (3) the Company distributes shares as dividends;
- (4) the Company reduces its registered capital, repurchases its shares or adjusts the shareholding structure in accordance with the Articles of Association;
- (5) the Company provides a loan for its normal business operations within its scope of business (but such financial assistance shall not give rise to a decrease in the net assets of

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the Company, or, despite a decrease, such financial assistance is made out of the distributable profit of the Company); and

- (6) the Company provides a loan for employee stock ownership plan (but such financial assistance shall not give rise to a decrease in the net assets of the Company, or, despite a decrease, such financial assistance is made out of the distributable profit of the Company).

Repurchase of Shares

The Company may, in the following circumstances, repurchase shares of the Company in accordance with the procedures provided in the Articles of Association and with the approval of the relevant governing authorities of the PRC:

- (1) canceling shares in order to reduce the registered capital of the Company;
- (2) merging with other companies holding shares of the Company;
- (3) awarding shares to employees of the Company;
- (4) shareholders objecting to resolutions of the shareholders’ general meeting concerning merger or division of the Company, requiring the Company to buy their shares;
- (5) other circumstances approved by laws, administrative regulations and the securities regulatory authority in the place where the Company’s Shares are listed.

The Company shall not trade its shares unless in the aforesaid circumstances. Where the Company purchases its shares in the aforesaid Clause (1) to Clause (3) circumstances, a resolution by the Shareholders’ meeting is required.

The Company may repurchase its shares in any of the following ways:

- (1) making a general offer to repurchase shares from all shareholders in proportion to their shareholdings;
- (2) repurchasing shares through open transactions in the stock exchange;
- (3) repurchasing shares based on an off-market agreement; and
- (4) in other forms approved by the laws, administrative regulations and competent authorities.

When repurchasing shares based on an off-market agreement, the Company shall obtain prior approval at the shareholders’ general meeting in accordance with the Articles of Association. Where prior approval has been obtained from the shareholders in a Shareholders’ meeting in the same manner, the Company may release or modify the contract entered into in the aforesaid manner or waive any rights granted under such contract.

After repurchasing its shares according to the aforesaid provisions, where it is in the circumstance stated in Clause (1), the Company shall cancel such shares within ten days from the date of repurchase; where it is in the circumstances stated in Clause (2) or Clause (4), the Company shall transfer or cancel such shares within six months. Where the registered capital is changed, the Company shall register the change of the registered capital with the State Administration for Industry & Commerce. The total par value of the cancelled shares shall be reduced accordingly from the registered capital of the Company. Where the Company repurchases its Shares in accordance with Clause (3), such repurchased shares shall not exceed more than 5% of the issued shares of the Company. The

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payment for the repurchase shall be made out of the after tax profits of the Company and such repurchased shares shall be transferred to employees within one year from the repurchase.

Increase and Decrease of Shares

According to the operation and development needs of the Company, subject to the applicable laws and regulations, the Company may increase the registered capital by the following ways upon approval by separate resolution of the shareholders’ general meeting:

- (1) public issue of shares;
- (2) non-public issue of shares;
- (3) placement of shares to existing shareholders;
- (4) issue of bonus shares to existing shareholders;
- (5) capitalization of common reserve fund;
- (6) other means stipulated by laws and administrative regulations or approved by the relevant regulatory authority.

Issue of new shares for the increase of capital by the Company shall follow the procedures specified by the relevant state laws and administrative regulations upon approval according to the Articles of Association.

The Company may reduce its registered capital. Where the Company reduces its registered capital, the Company shall follow the procedures specified by the Company Law, other related regulations and the Articles of Association.

Share Certificates and Register of Shareholders

The Company’s share certificates are in registered form which shall include the followings:

- (1) the name of the Company;
- (2) the date of incorporation of the Company;
- (3) the class and par value of the shares and the number of shares represented by the certificate;
- (4) the serial number of the share certificate;
- (5) other particulars required by the Company Law and the securities regulatory authority in the place where the Company’s shares are listed.

For non-voting shares in the share capital of the Company, the words “non-voting” shall be in their designation;

in case that the share capital includes shares carrying different voting rights, the words “restricted voting right” or “limited voting right” shall be in the designation of each class of shares (except for shares with the most privileged voting rights).

The Company may issue certificates of overseas-[REDACTED] foreign shares in the form of foreign depository receipts or other derivatives in accordance with the laws and the practice of registration and deposit of securities in the place of its [REDACTED].

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The Company shall establish a register of shareholders recording the following matters:

- (1) the names or titles, addresses or domiciles, occupations or nature of each shareholder;
- (2) the class and number of shares held by each shareholder;
- (3) the amount paid or payable on the shares held by each shareholder;
- (4) serial numbers of the share certificates held by each shareholder;
- (5) the date of registration;
- (6) the date of deregistration.

The register of shareholders shall be sufficient evidence of the shareholders’ shareholding in the Company, unless there is evidence to the contrary.

The Company may keep overseas the register of holders of overseas-[REDACTED] foreign shares and entrust an overseas agency for its custody in accordance with the understanding and agreement reached between the securities regulatory authority under the State Council and the overseas securities regulatory authority. The original of the register of holders of overseas-[REDACTED] foreign shares [REDACTED] on the Hong Kong Stock Exchange shall be kept in Hong Kong.

The Company shall keep at its domicile a copy of the register of holders of overseas-[REDACTED] foreign shares, and the entrusted overseas agency shall always ensure that the original and copies of the register of holders of overseas-[REDACTED] foreign shares are consistent.

Where the original and copies of the register of holders of overseas-[REDACTED] foreign shares are inconsistent, the original shall prevail.

Change of the register of shareholders arising from share transfer shall not be registered within 30 days before convening of a shareholders’ general meeting or within 5 days prior to the record date for the purpose of dividend allocation by the Company.

Any person who has an objection to the register of shareholders and requests to have his/her name (title) entered into or removed from the register of shareholders may file a petition to the court of competent jurisdiction for rectification.

Any registered shareholder or any person who claims to have his/her name (title) entered into the register of shareholders in respect of shares in the Company may apply to the Company for a new share certificate for replacement in respect of such shares (the “Relevant Shares”), in the event that his/her share certificate (the “Original Share Certificate”) has been stolen, lost or destructed.

Shareholders and the Shareholders’ General Meeting

Shareholders

Shareholders of the Company are persons lawfully holding shares of the Company, with names (titles) recorded in register of shareholders.

The shareholders are entitled to rights and obligations according to the class of shares and portion they held. Shareholders of the same class shall be entitled to the same rights and the same obligations.

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As for overseas-[REDACTED] foreign shares, where two or more persons are registered as joint holders of any shares, they shall be deemed as the common owners of the said shares subject to the following restrictions:

- (1) the Company shall not register more than four persons as joint shareholders of any shares;
- (2) all joint shareholders of any shares shall be jointly and severally liable for all relevant costs payable;
- (3) if one of the joint shareholders is deceased, only the other existing shareholder(s) shall be deemed as the owners of relevant shares, provided that the Board may require a certificate of death of the relevant shareholder it deems appropriate for the purpose of updating the register of shareholders;
- (4) in respect of the joint shareholders of any shares, only the joint shareholder first named in the register of shareholders have the right to receive the certificate of relevant shares and notices of the Company, and to attend or vote at shareholders' general meetings of the Company. Any notice delivered to the aforesaid shareholder shall be deemed to have delivered to all joint shareholders of the relevant shares. Any of the joint shareholders may sign the proxy form. In case that more than one of the joint shareholders attend the meeting, whether in person or by proxy, the vote of the senior joint shareholder will be accepted to the exclusion of the votes of the other joint shareholder(s), and for this purpose, seniority will be determined by the order in which the names stand in the register of shareholders in respect of the joint shareholding.

Holders of the ordinary shares of the Company shall be entitled to the following rights:

- (1) to receive dividends and other distributions in proportion to the shares they hold;
- (2) to file a petition according to laws, to convene, hold and attend the shareholders' general meetings either in person or by proxy and exercise their corresponding voting right;
- (3) to supervise, present suggestions on or make inquiries about the operational conduct of the Company;
- (4) to transfer, donate or pledge their shares in accordance with laws, administrative regulations, relevant requirements provided by the securities regulatory authority in the place where the Company's shares are listed and the Articles of Association;
- (5) to gain relevant information in accordance with laws and the Articles of Association, including:
 - (a) receiving the Articles of Association after payment of production cost;
 - (b) being entitled to consult for free and copy after payment of reasonable cost for the following:
 - (i) all parts of the register of shareholders;
 - (ii) personal data of Directors, Supervisors, President and other senior management of the Company, including:
 - (A) their present and former names, alias;
 - (B) address (residence);
 - (C) nationality;

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- (D) full-time and all other part-time jobs and titles;
 - (E) identity documents and numbers;
 - (iii) shareholding in the company;
 - (iv) the latest audited financial statements and reports of the Board, of the auditors and of the Board of Supervisors of the Company;
 - (v) special resolutions of the shareholders’ general meetings and/or of the Board meetings of the Company;
 - (vi) report of the total par value, quantity, the highest and lowest price of each class of shares repurchased by the Company from the last fiscal year and the total amount paid by the Company for this purpose, refined according to domestic shares and foreign shares;
 - (vii) minutes of shareholders’ general meetings;
 - (viii) a copy of the latest annual inspection report filed with the State Administration of Industry and Commerce or other competent authorities.
 - (ix) corporate bond stub;
 - (x) the resolution of the Board of Directors and the resolutions of the board of supervisors.
- (6) to participate in the distribution of the remaining properties of the Company in proportion to their shareholdings in the event of the termination or liquidation of the Company;
- (7) to require the Company to buy their shares in the event of objection to resolutions of the shareholders’ general meeting concerning merger or division of the Company;
- (8) to enjoy other rights stipulated by laws, administrative regulations, departmental rules, regulatory document, Hong Kong Listing Rules and the Articles of Association.

The Company shall not exercise any power to freeze or otherwise damage any rights attached to the Shares held by a person directly or indirectly interested in the Company due to the fact that such a person fails to disclose its rights and interests to the Company.

Without the approval of the CSRC, any units or individuals holding or actual controlling more than 5% Shares of the Company shall rectify within a time limit and their corresponding Shares shall not have the right to vote before the rectification.

In the event of any loss caused to the Company as a result of violation of laws, administrative regulations or the Articles of Association by the directors or senior management when performing their duties, any of the shareholders who holds 1% or more of the shares individually or jointly for no less than 180 consecutive days shall have the right to request the Board of Supervisors in writing to initiate litigation before the People’s Court. In the event of any loss caused to the Company as a result of violation of laws, administrative regulations or the Articles of Association by the Board of Supervisors when performing its duties, any of the shareholders may request the Board in writing to initiate litigation before the People’s Court.

In the event that the Board of Supervisors or the Board dismisses the written request of any of the shareholders as specified in the preceding paragraph, or withholds from instituting litigation within

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30 days of the receipt of the request, or that the failure to institute litigation immediately may otherwise cause irreparable damage to the interest of the Company in an urgent circumstance, such shareholder(s) as mentioned in the preceding paragraph shall have the right to initiate litigation before the People's Court in the name(s) of such shareholder(s) in the interest of the Company.

In the event of any infringement by a third party to the Company's legitimate rights and interest, resulting in losses to the Company, any of the shareholders who holds 1% or more of the shares individually or jointly for no less than 180 consecutive days may initiate a lawsuit before the People's Court in accordance with the preceding provisions.

In the event that any director or senior management violates laws, administrative regulations or the Articles of Association to the detriment of the interest of the shareholders, the shareholders may initiate litigation before the People's Court.

In the event that any resolutions of the shareholders' general meeting and the Board of Directors violate laws and administrative regulations, such resolutions are void. In the event that the procedures for convening and the voting at a shareholders' general meeting or a board meeting violate laws, administrative regulations or the company's Articles of Association, or the resolutions violate the Articles of Association of the Company, the shareholder may request the people's court to revoke within 60 days from the date of the resolutions.

The holders of ordinary shares of the Company shall have the following obligations:

- (1) to comply with the laws, administrative regulations and the Articles of Association;
- (2) to make the payment with respect to the shares subscribed for and the method of subscription; a shareholder shall not be liable to make further contribution to the share capital other than the terms as agreed by the subscriber at the time of subscription;
- (3) to be prohibited from claiming the share capital in respect of its shares, unless otherwise specified by the laws or regulations; and
- (4) not to abuse the rights of the shareholder to the detriment of the interest of the Company or other shareholders, or abuse the Company's independent legal person status or the limited liability of the shareholders to the detriment of the interest of the creditors of the Company.

In the event of any damage caused to the Company or other shareholders arising from any abuse of the shareholder's right, such shareholder shall be liable for compensation in accordance with laws.

In the event of any material damage caused to the interest of the creditors of the Company arising from any abuse of the Company's independent legal person status and the limited liability of the shareholders by any shareholder to evade from debts, such shareholder shall be jointly and severally liable for the Company's debts;

- (5) not to appoint or remove Directors, Supervisors and senior management of the Company without authorization by the shareholders' general meeting and the Board of Directors;
- (6) not to intervene the operation and management activities of the Company by violating laws, administrative regulations and the Articles of Association of the Company;

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- (7) other obligations prescribed by laws, administrative regulations and the Articles of Association of the Company.

Any shareholder who holds or controls 5% or above of the shares enjoying the voting rights of the Company shall notify the Company within 5 business days of any of the following events:

- (1) the shares of the securities firm held or controlled by it are subject to any property preservation or other mandatory measures;
- (2) its actual controller has been changed;
- (3) its name has been changed;
- (4) a merger or division has been effected;
- (5) it is ordered to suspend operation, or is appointed a receiver, or is taken over, subject to revoke or other regulatory measures or in the process of dissolution, bankruptcy or liquidation;
- (6) it is imposed upon administrative penalties or criminal punishment due to serious violation of laws or regulations;
- (7) other material circumstances that may result in the transfer of the shares of the Company that it holds or otherwise affect the operation of the Company; and
- (8) other circumstances required to notify the Company in accordance with relevant laws, regulations, rules and regulatory documents.

Any shareholder holding 5% or above of the voting shares of the Company, who pledges its shares, shall immediately report to the Company in writing on the day of effectiveness of such pledge of shares.

The controlling shareholders of the Company shall not make any decisions that may harm the legitimate rights and interests of the Company and other Shareholders upon exercising their rights to vote. The controlling shareholders and *de facto* controller of the Company shall not exploit their connected relationship to harm the interests of the Company. In the event of any damage caused to the Company due to their violation of regulations, they shall be liable for such damages.

The controlling shareholders and *de facto* controller of the Company shall bear the fiduciary duty to the Company and the public shareholders of the Company. The controlling shareholder shall strictly abide by the laws in exercising the investor's rights and shall not infringe the legitimate rights of the Company and the public shareholders by way of profit distribution, asset reorganization, external investment, use of capital and guarantee for borrowings. The controlling shareholders shall also not exploit their controlling position or abuse their rights to harm the interests of the Company or the public shareholders.

In addition to the obligations imposed by the laws and administrative regulations or required by the securities regulatory authority in the place where the Company's Shares are listed, the controlling shareholder, in exercising the power as a shareholder, shall not exercise his/her voting rights in a manner prejudicial to the interests of all or some part of the shareholders when making decision on the following matters:

- (1) to remove a director or supervisor of his/her duty to act in good faith in the best interests of the Company;

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- (2) to approve the expropriation by a director or supervisor (for his/her own benefit or for the benefit of another), in any manner, the assets of the Company, including but not limited to an opportunity beneficial to the Company;
- (3) to approve the expropriation by a director or supervisor (for his/her own benefit or for the benefit of another) the individual interests of other shareholders, including but not limited to rights to distributions and voting rights save and except restructuring of the Company submitted for approval by the shareholders in general meeting in accordance with the Articles of Association.

General Rules of Shareholders’ General Meeting

The shareholders’ general meeting is the authority of the Company and shall exercise the following functions and powers in accordance with the laws:

- (1) to determine the operating policies and investment plans of the Company;
- (2) to elect and replace directors and to determine the remuneration of the relevant directors;
- (3) to elect and replace supervisors appointed from shareholder representatives, and to determine the remuneration of the relevant supervisors
- (4) to consider and approve the reports of the Board of Directors;
- (5) to consider and approve the reports of the Board of Supervisors;
- (6) to consider and approve the proposed annual financial budgets and final accounts of the Company;
- (7) to consider and approve the profit distribution plans and loss recovery plans of the Company;
- (8) to approve resolutions on increase or reduction of share capital and issuance of stocks of any type, warrants and other similar securities of the Company;
- (9) to resolve on the issuance of bonds of the Company;
- (10) to resolve on matters such as merger, division, dissolution, liquidation or change of form of the Company;
- (11) to amend the Articles of Association;
- (12) to resolve on the appointment, removal or non-renewal of any accounting firm;
- (13) to consider the guarantees for any external party which is subject to approval of the shareholders’ general meeting;
- (14) to consider and approve the connected transactions which shall be considered by the shareholders’ general meeting, according to SSE Listing Rules, namely transactions between the Company and connected persons (excluding provision of guarantees, receipt of cash assets for free and any transaction that simply relieves the company of any obligatory debt) amounting to RMB30 million or above and accounting for five percent (5%) or higher of the absolute value of the latest audited net assets of the Company (hereinafter referred to as “material related transactions”); consider and approve the connected transactions, which are subject to approval of independent shareholders (i.e. shareholders who don’t have interest in connected transactions), according to the

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Hong Kong Listing Rules; as the SSE Listing Rules and the Hong Kong Listing Rules are revised to be applicable from time to time, the Company shall comply to specific provisions of the SSE Listing Rules and the Hong Kong Listing Rules as revised to be applicable from time to time, in respect of connected transactions;

- (15) to consider external investment, purchasing or selling material assets and financing, in which a single operating capital or operating capitals accumulated within 4 months amounting to or exceeding 20% of the latest audited net assets of the Company;
- (16) to consider matters of which material assets purchased or sold within one year exceed 30% of the latest audited total assets of the Company;
- (17) to consider and approve any change of the use of proceeds raised;
- (18) to consider share incentive scheme;
- (19) to consider such other matters to be resolved at shareholders’ general meeting as required by the laws, regulations, listing rules of the places where the shares of the Company are listed or the Articles of Association.

The foregoing functions and powers of the shareholders’ general meeting shall not be exercised by the board of directors or any other body or individual on its behalf by means of authorization. When it is deemed necessary and reasonable, in relation to resolutions that have been made but their relevant specific matters cannot be decided upon during the shareholders’ general meeting, the shareholders’ general meeting may authorize the Board to decide upon such matters within the scope of authorization of the shareholders’ general meeting subject to the applicable laws, regulations and the Articles. Without the prior approval from shareholders’ general meeting, the Company shall not enter into a contract with a person other than a Director, Supervisor, president or other senior management members whereby the management of all or a material part of the business of the Company is delegated to such person.

The Company shall not provide guarantee for its shareholders, *de facto* controller or its related parties. The Company shall comply with relevant provisions regarding guarantee for any external party by any securities firm or listed company. The provision of any of the following guarantee for any external party by the Company shall be considered and resolved at shareholders’ general meeting:

- (1) any guarantee after the total amount of guarantee for the external parties by the Company and its controlled subsidiaries has reached or exceeded 20% of the Company’s latest audited net assets; (except providing security or a counter-security for its own liabilities);
- (2) any guarantee provided for any entity with a gearing ratio of more than 70%;
- (3) any single guarantee with a value of more than 10% of the latest audited net assets of the Company;
- (4) guarantees exceeding 30% of the latest audited total asset of the Company when being aggregated with guarantees incurred in the preceding 12 consecutive months;
- (5) guarantees exceeding 50% of the latest audited net asset of the Company when being aggregated with guarantees incurred in the preceding 12 consecutive months, with the absolute amount exceeding RMB50million;

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- (6) other guarantees which are subject to consideration at the shareholders’ general meetings, pursuant to related laws, regulations and requirements of the stock exchange where the share of the Company are listed.

Any guarantee for any external party, which are subject to consideration of the shareholders’ general meeting shall be submitted to the shareholders’ general meeting for approval upon the approval from the Board. The guarantee in circumstance (4) above shall be passed by at least two-thirds of the voting rights held by the shareholders present at the meeting.

Shareholders’ general meetings consist of annual general meetings and extraordinary general meetings. The annual general meeting shall be held once every year within six months following the end of the previous financial year. In case of adjournment under special circumstances, the Company shall promptly report to the local branch of the CSRC in the place at which the Company is located with the reasons for adjournment.

The Company shall hold an extraordinary general meeting within two months subsequent to the occurrence of any of the following events:

- (1) when the number of incumbent directors falls below the mandatory minimum requirement of the Company Law, or is less than two-thirds of the number specified by the Articles of Association;
- (2) when the uncovered loss is more than one-third of the Company’s total share capital;
- (3) when any of the shareholders individually or jointly holding no less than 10% of total number of the Company’s shares entitled to vote make any written request;
- (4) when the Board considers it necessary;
- (5) when the Board of Supervisors proposes to convene such meeting;
- (6) such other circumstances as specified by the laws, administrative regulations, departmental rules, normative documents or the Articles of Association.

Number of shares in circumstance (3) above shall be calculated as of the date on which the written request is made.

Convening of Shareholders’ General Meeting

Shareholders’ general meetings shall be convened by the Board of Directors, and presided over by the chairman of the Board of Directors, unless the Articles of Association require otherwise.

Any independent director may propose to the Board to convene an extraordinary general meeting, and the Board shall reply in writing in response to such proposal, whether to consent or not, within 10 days upon receipt of the proposal in accordance with the laws, administrative regulations and the Articles of Association.

If the Board consents to the proposal, a notice on convening such meeting shall be issued within five days following the date of such resolution of the Board. If the Board rejects the proposal, the Board shall provide an explanation and make relevant announcement.

The Board of Supervisors may propose in writing to the Board to convene an extraordinary general meeting. The Board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with the laws, administrative regulations and the Articles of Association.

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If the Board consents to the proposal, a notice on convening such meeting shall be issued within five days following the date of such resolution of the Board, provided that any change to the proposal made in notice shall be subject to approval of the Board of Supervisors.

If the Board rejects the proposal or withholds from responding for 10 days following receipt of the proposal, the Board shall be deemed failing to perform the duty of convening a shareholders' general meeting. In such case, the Board of Supervisors may convene and preside over the meeting.

Any of the shareholders individually or jointly holding no less than 10% of the Company's shares may propose in writing to the Board to convene an extraordinary general meeting. The Board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with laws, administrative regulations and the Articles of Association.

If the Board consents to the proposal, a notice on convening such meeting shall be issued within five days following the date of such resolution of the Board, provided that any change to the proposal made in the notice shall be subject to approval of the relevant shareholder(s).

If the Board rejects the proposal or withholds from responding for 10 days following the receipt of the proposal, such shareholder(s) individually or jointly holding no less than 10% of the shares of the Company may propose to the Board of Supervisors in writing to convene an extraordinary general meeting.

If the Board of Supervisors consents to the proposal, a notice convening such meeting shall be issued within five days following receipt of the proposal, provided that any change to the proposal made in the notice shall be subject to approval of the relevant shareholder(s).

If the Board of Supervisors has not issued any notice on convening such meeting within the prescribed period, it shall be deemed that the Board of Supervisors will not convene and preside over the shareholders' general meeting. Such shareholder(s) individually or jointly holding 10% or above of the Company's shares for more than 90 consecutive days shall have the right to convene and preside over an extraordinary meeting.

If the Board of Supervisors or any such shareholder(s) convene(s) an extraordinary general meeting, the Board shall be notified in writing, and the meeting shall be registered with the local branch of the CSRC in the place in which the Company is located and the stock exchange(s).

The shareholder(s) convening the shareholders' general meeting shall hold no less than 10% of the shares of the Company prior to the announcement of any resolution approved at the shareholders' general meeting.

Such convening shareholder(s) shall submit relevant evidence to the local branch of the CSRC in the place in which the Company is located and the stock exchange(s) when issuing the notice of shareholder's general meeting and announcement of any resolution approved at the shareholder's general meeting.

The Board and its secretary shall cooperate with the Board of Supervisors or such shareholder(s) convening the meeting. The Board shall provide the register of shareholders as of the record date.

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In case the Board of Directors fails to convene meetings in line with above requirements, any such expense necessary to convene the meeting shall be reimbursed by the Company, and any sum so reimbursed shall be deducted from the amount payable by the Company to the defaulting directors.

Proposal and Notice of Shareholders' General Meeting

As a shareholders' general meeting is convened, the Board, Board of Supervisors and any of the shareholders individually or jointly holding no less than 3% of the shares of the Company may propose any resolution to the Company.

Any of the shareholders individually or jointly holding no less than 3% of the shares of the Company may submit an interim proposal in writing to the convener at least 10 days prior to the convening of the shareholders' general meeting. The convener shall then send a supplemental notice to the shareholders to announce the interim proposal, within 2 days upon receipt of such proposal.

Other than the above circumstances, the convener shall not make any change in the notice of the shareholders' general meeting to the existing proposals or add any new proposal after the publication of the notice.

When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given by the convener forty-five days before the date of the meeting to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty days before the date of the meeting.

The Company shall, based on the written replies received twenty days before the date of the general meeting of shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amounts to not less than half of the Company's total voting shares, the Company may hold a general meeting; if not, the Company shall within five days notify the shareholders by way of public announcement of matters to be considered at and the place and date of the meeting.

Voting and Resolutions at the Shareholders' General Meeting

Shareholders (including their proxies) shall exercise their voting rights represented by the number of voting shares they represent. Each share shall have one vote.

When the shareholders' general meeting considers significant matters that could affect the interest of medium and small investors, the votes by medium and small investors shall be counted separately, and the results of such separate vote counting shall be disclosed promptly.

Shares 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 present at a shareholders' general meeting.

The soliciting of voting rights can be carried out by board of directors, independent directors, and the shareholders who comply with relevant regulations. Information including the specific voting preference shall be fully provided to the shareholders for whom voting rights are being solicited.

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Consideration or *de facto* consideration for soliciting shareholders’ voting rights is prohibited. The Company shall not impose any minimum shareholding limitation for soliciting voting rights.

Where any shareholder is, under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, required to abstain from voting for any resolution or restricted to voting only for or only against it, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

Resolutions of the shareholders’ general meetings shall be classified into ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by votes representing not less than half of the voting rights carried by the shareholders (including proxies) present at the meeting.

A special resolution shall be passed by votes representing not less than two-thirds of the voting rights carried by the shareholders (including proxies) present at the meeting.

The following matters shall be approved by ordinary resolutions at the shareholders’ general meeting:

- (1) work reports of the board of directors and the supervisory committee;
- (2) profit distribution proposals and proposals for making up losses formulated by the board of directors;
- (3) appointment and removal of members of the board of directors and the supervisory committee and their remuneration and methods of payment;
- (4) the Company’s annual preliminary and final financial budget, balance sheet, income statement and other financial statements;
- (5) the Company’s annual report;
- (6) such matters other than those which are required by laws, administrative regulations or the Articles of Association to be adopted by way of special resolution.

The following matters shall be approved by special resolutions at the shareholders’ general meeting:

- (1) increase or reduction in share capital of the Company and issuance of shares of any class, warrants and other similar securities;
- (2) issuance of bonds by the Company;
- (3) division, merger, dissolution and liquidation of the Company;
- (4) amendment to the Articles of Association;
- (5) share incentive scheme;
- (6) purchase or disposal of substantial assets by the Company within one year or the guaranteed amount exceed 30% of the Company’s latest audited total assets;
- (7) other matters specified by the laws, regulations, listing rules of places where the shares of the company are listed or the Articles of Association and matters specified by ordinary

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resolutions of shareholders’ general meeting that are considered to be significant to the Company and shall be approved by special resolutions.

Other than the cumulative voting system, the shareholders’ general meeting shall vote on all proposals one by one. For two proposals on the same matter, voting shall be proceeded according to the time order of these proposals and voting shall not be proceeded once one of two proposals has been passed. Other than special reasons such as force majeure which results in the interruption of the meeting or makes it impossible to come to resolution, the shareholders’ general meeting shall not stay the proposals or withhold from voting.

When a connected transaction is considered at a shareholders’ general meeting, the connected shareholders shall abstain from voting. The voting shares held by connected shareholders shall not be counted in the total number of shares with voting rights. In the event that shareholders who have interests in such transactions are unable to abstain from voting in special circumstances, the resolution may be voted on in accordance with normal procedure upon the approval of relevant authorities.

The announcement on the resolutions of the shareholders’ general meeting shall fully disclose the voting of the shareholders who are not connected parties. Material connected transactions shall be disclosed in reports from time to time or in regular reports.

When shareholders are voting on any proposals at the shareholders’ general meeting, lawyers, shareholders’ representatives and supervisors’ representatives shall be jointly responsible for vote counting and scrutinizing. The voting results shall be announced in the meeting and recorded in the minutes.

Special Procedures for Voting by Class Shareholders

Shareholders holding different classes of shares shall be class shareholders.

Class shareholders enjoy rights and responsibilities, pursuant to laws, administrative regulations and the Articles of Association.

Except for holders of shares of other classes, the holders of domestic shares and overseas-listed foreign shares are different classes of shareholders.

Any variation or abrogation of the rights of any class of shareholders proposed by the Company shall be approved by a special resolution at the shareholders’ general meeting and by the shareholders of the affected class at a separate class meeting.

The following circumstances shall be deemed to be variation or abrogation of the rights of shareholders of a certain class:

- (1) increase or decrease in the number of shares of that class, or increase or decrease in the number of shares of another class having the same or more rights in voting, distribution or other privileges;
- (2) conversion of all or part of the shares of that class into shares of other classes, or conversion of all or part of the shares of other classes into shares of that class or granting rights of such conversion;

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- (3) removal or reduction of the entitlement and rights to receive and retain dividends attributable to shares of that class;
- (4) reduction or removal of the priority of the shares of that class to receive dividends or distribution in the event of liquidation;
- (5) increase, removal or reduction of the right of conversion, options, voting rights, the right to transfer, priority in placement of shares and the right to acquire securities of the Company attached to shares of that class;
- (6) removal or reduction of the right to receive sums payable by the Company in particular currencies attached to shares of that class;
- (7) creation of a new class of shares having the same or more rights in voting, distribution or other privileges;
- (8) imposing or strengthening the restriction on the transfer or holding of the shares of that class;
- (9) issue of rights to subscribe for or convert into shares of that class or other classes;
- (10) increase in the rights and privileges of shares of other classes;
- (11) proposed restructuring of the Company which shall result in different classes of shareholders having to assume disproportionate liabilities;
- (12) alteration or cancellation of the provisions set out in this section.

Shareholders of the affected class, whether or not having the right to vote at the shareholders' general meetings, shall have the right to vote at the class meeting in relation to any of the matters under circumstances (2) to (8), (11) and (12) above, but interested shareholders shall abstain from voting at the relevant class meeting.

A resolution of a class meeting shall be passed by at least two-thirds of the voting rights held by the shareholders present and entitled to vote at the class meeting.

The special procedures for voting by class shareholders shall not apply in the following circumstances:

- (1) pursuant to a special resolution of shareholders' general meeting, the Company issues domestic shares and overseas-[REDACTED] foreign shares once every 12 months, either separately or concurrently, and the respective numbers of domestic shares and overseas-[REDACTED] foreign shares proposed to be issued do not exceed 20% of the respective numbers of the issued domestic shares and overseas-[REDACTED] foreign shares;
- (2) the Company completes the issue of domestic shares and overseas-[REDACTED] foreign shares according to the plan adopted upon its establishment within 15 months from the date of approval by the securities regulatory authority of the State Council;
- (3) upon the approval from securities regulatory authority of the State Council, holders of the Company's domestic shares transfer their shares to foreign investors for [REDACTED] and dealing on overseas stock exchanges.

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DIRECTORS AND THE BOARD

Directors

Directors are natural persons and need not hold shares of the Company.

Directors shall be elected or replaced at shareholders’ general meetings. A Director shall serve a term of three years, and may seek reelection upon expiry of the said term. The term of a Director shall be calculated from the date upon which the resolution was approved at shareholders’ general meetings to the expiry of the current Board.

If the term of office of a Director expires but reelection is not made responsively, the said Director shall continue fulfilling the duties as Director pursuant to laws, administrative regulations, departmental rules and the Articles of Association until a new Director is elected.

Directors shall observe laws, administrative regulations and the Articles of Association, and undertake the following fiduciary duties to the Company:

- (1) not to abuse their official powers to accept bribes or other unlawful income, and not to misappropriate the properties of the Company;
- (2) not to misappropriate the capital of the Company;
- (3) Not to open in their own names or in others’ names any account for the purpose of depositing any of the Company’s assets or capital;
- (4) not to lend monies of the Company to other persons or provide guarantee for other persons with the property of the Company counter to the Articles of Association or without the consent of the Shareholders’ meeting or the Board;
- (5) not to conclude any contract or conduct transactions with the Company counter to the Articles of Association or without the consent of the Shareholders’ meeting;
- (6) not to take advantage of their positions to seek for themselves or others business opportunities that are due to the Company, or conduct for themselves or others any businesses similar to those of the Company without the consent of the Shareholders’ meeting;
- (7) not to receive as their own commission for transaction with the Company;
- (8) not to disclose secrets of the Company;
- (9) not to use their connected relations to damage the interests of the Company;
- (10) to fulfill other fiduciary duties stipulated by laws, administrative regulations, departmental rules and the Articles of Association.

Any income obtained by Directors in violation of any provisions of this Article of Association shall belong to the Company. The Director shall be accountable to indemnify the Company against any losses incurred.

Directors shall observe laws, administrative regulations and the Articles of Association, exercise the rights conferred by the Company with due discretion, care and diligence and undertake the following obligations of diligence to the Company:

- (1) to exercise the rights conferred by the Company with due discretion, care and diligence to ensure that the business operations of the Company comply with PRC laws, administrative regulations and all PRC economic policies and are not beyond the business scope specified in the business license of the Company;

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- (2) treat all shareholders impartially;
- (3) to carefully read the relevant business and financial reports of the Company and keep informed of the operation and management conditions of the Company in a timely manner;
- (4) to approve regular reports of the Company in written form and to ensure the integrity, accuracy and completeness of the information disclosed by the Company;
- (5) to accept the lawful supervision and rational suggestions of the Supervisory Committee on their performance of duties; honestly provide the Supervisory Committee with the relevant information, not to prevent the Supervisory Committee or Supervisors from exercising their functions and powers;
- (6) personally exercise the legally conferred disposal right of the Company, which shall not be manipulated by others; without the permit of laws and administrative regulations or without the approval of shareholders' general meeting upon informed circumstances, shall not grant the disposal right to others for exercise; and
- (7) to fulfill other obligations of diligence stipulated by laws, administrative regulations, departmental rules and the Articles of Association.

Except as specified in the Articles of Association or properly authorized by the Board, no Director shall act on behalf of the Company or the Board in his/her personal name. If a Director acts in his own name but a third party may reasonably think that the said Director is acting on behalf of the Company or the Board, the said Director shall make a prior statement of his stand point and capacity.

If any Director fails to attend board meetings in person or by proxy for three consecutive times, the said Director shall be deemed incapable of performing his duties, and the Board shall suggest that the Shareholders' meeting dismiss the said Director.

Upon his/her resignation or expiry of his/her term of office, the duties of Directors to the Company and the shareholders are not necessarily released when his/her resignation is not effective or within a reasonable period after his/her resignation becomes effective or upon the expiry of his/her term of office. The duty of confidentiality in respect of trade secrets of the Company survives the termination of his term of office until such trade secrets become public known. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the specific circumstances and conditions under which the relationship between the Director and the Company was terminated.

The Board

The Company shall have a board accountable to the shareholders' general meeting. The Board consists of 16 directors, including at least one-third of independent Directors. The Board shall have a chairman and may have a vice chairman.

The Board shall perform the following duties:

- (1) to convene shareholders' general meetings and to report to shareholders' general meetings;
- (2) to implement the resolutions of the shareholders' general meetings;

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- (3) to determine operation plans and investment plans of the Company;
- (4) to formulate annual preliminary and final financial budgets of the Company;
- (5) to formulate the profit distribution plans and plans for recovery of losses of the Company;
- (6) to formulate proposals of the Company regarding increase or reduction of the registered capital, issuance of bonds or other securities and listing;
- (7) to formulate plans for any substantial acquisition by the Company, repurchase of Shares or merger, division, and dissolution of the Company;
- (8) to decide on matters relating to the Company’s external investments, disposal of substantial assets, financing, mortgage of assets, external guarantees and connected transactions as authorized by the shareholders’ general meetings;
- (9) to decide on the establishment of the Company’s internal management structure;
- (10) to appoint or dismiss the Company’s president; appoint or dismiss chief risk control officer, chief compliance officer and secretary to the Board based on the nominations of chairman of the Board; to appoint or dismiss other senior management including vice president, chief finance officer, chief operating officer, chief investing officer and investment banking director based on the nominations of President and to determine their remuneration and penalties;
- (11) to formulate the basic management policies of the Company;
- (12) to formulate proposals for any amendments to the Articles of Association;
- (13) to manage the disclosure of information of the Company;
- (14) to propose to the shareholders’ general meetings the appointment or change of the accounting firm acting as the auditors of the Company;
- (15) to consider and review the working report and the work of the President of the Company;
- (16) to review and decide on compliance management policy and urge, examine and assess compliance management; and
- (17) other duties and powers granted by the laws, regulations and the Articles of Association.

Resolutions regarding increase or reduction of registered capital, issuance of bonds, merger, division, dissolution and amendments to articles of association of the Company shall be passed with the approval of over two-thirds of all Directors and other resolutions shall be passed with the approval of over half of all Directors.

The Board shall give an explanation at the shareholders’ general meeting of the qualified audit opinions on the audit report on the financial report of the Company issued by the certified public accountant.

The Board shall formulate the rules of procedures of the Board to ensure the working efficiency and scientific decision-making.

Chairman and vice chairman shall be a Director and shall be elected and removed by over half of the members of the Board.

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Chairman of the Board shall exercise the following duties and powers:

- (1) to preside over the shareholders' general meeting and convene and preside the meeting of the Board;
- (2) to urge and examine the implementation of resolutions of the Board;
- (3) to execute the certificates of shares, bonds and other negotiable securities of the Company;
- (4) to sign major documents of the Board and other documents that shall be signed by the legal representative of the Company;
- (5) to exercise the duties and powers of legal representative(s);
- (6) other duties and powers granted by the Board.

The notice of extraordinary meeting of the Board shall be delivered by hand, post or facsimile, and the time period for notification shall be five days before the date of meeting. In the case of emergency when it is required to convene the extraordinary Board meeting, the Board may issue the notice for the meeting at any time by telephone, facsimile or email, but the convener shall give explanation at the meeting.

The quorum of the meeting of the Board shall be over half of the directors. Each director shall have one voting right. Unless otherwise provided in the Articles of Association, the resolutions of the Board shall be passed with the approval of over half of all directors.

In the case of an equality of votes, the chairman of the board shall be entitled to one additional vote.

Where a director is related to the enterprises involving in the resolution discussed in the meeting of the Board, such director shall neither exercise his/her voting right on such resolution nor exercise the voting right on behalf of other directors. Such meetings of the Board may be held with the attendance of over half of the non-related directors, and the resolutions made by the meetings of the Board must be passed with the approval of over half of the non-related directors. Where the number of non-related directors is less than three, relevant matters shall be submitted to the shareholders' general meeting for approval.

The meetings of the Board shall be attended in person. Where the directors are unable to attend the meetings for any reasons, other directors may be delegated to attend the meetings on behalf with written consent.

The Board meeting shall maintain meeting minutes. The directors attending the meeting and the recorders shall sign on the minutes of the meeting. Directors attending the meeting are entitled to request that an explanation of his/her comments made at the meetings be noted in the minutes. The minutes of board meetings shall be maintained as corporate archives by the secretary to the Board for a period of not less than 20 years.

Directors shall sign on the resolutions of the Board and bear the responsibilities for the resolutions of the Board. Where the resolutions of the Board violate the laws, regulations or the Articles of Association, resulting in losses to the Company, the directors participating in the resolutions shall be liable to compensate the Company, but the directors that have expressed their objections which have been recorded on the minutes in the meeting may be exempted from the liabilities.

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Committees under the Board

The Board of the Company has set up a strategy development committee, compliance and risk management committee, audit committee, and remuneration and nomination committee. All members of the committees shall be directors and members shall have the professional knowledge and work experience adaptable to their duties in the specialized committee.

The number of independent directors in the audit committee shall be more than half of the total number of members and at least one independent director with more than five years’ experiences in accounting work must be included in the audit committee.

The posts of chairmen of the remuneration and nomination committee and the audit committee shall be held by independent directors.

The committees shall be accountable to the Board and submit work reports or meeting minutes to the Board in accordance with the Articles of Association. The Board of Directors shall listen to the opinions of the committees before the Board of Directors makes a resolution related to duties of committees.

Secretary to the Board

The Company shall have a secretary to the Board. The secretary to the Board shall be a senior manager at the Company and be accountable to the Board of Directors.

The secretary to the Board shall mainly perform the following duties:

- (1) to prepare for shareholders’ general meetings and meetings of the Board of Directors, maintain documents and manage shareholders’ information;
- (2) to provide related information, submit information or information disclosure and others in accordance with regulations or upon request by the securities regulatory authority under the State Council, shareholders and other relevant units or individuals;
- (3) to ensure that the Company has complete organizational documents and records;
- (4) to ensure that the Company prepares and submits reports and documents required by competent authorities;
- (5) to ensure that the registers of shareholders of the Company are properly maintained and persons entitled to access the records and documents of the Company are promptly furnished with such records and documents; and
- (6) to perform other duties required by relevant laws, regulations, listing rules applicable to the place where the Company’s stocks are listed or granted by the Board of Directors.

Directors of the Company (other than independent directors) or other senior management may serve as the Secretary to the Board concurrently. The accountants of the accountant firm and the lawyers of the law firm engaged by the Company shall not serve as the Secretary to the Board concurrently.

The Secretary to the Board shall be nominated by the chairman of the Board of Directors and be appointed and removed by the Board of Directors. In the event that an act shall be made

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respectively by directors and the Secretary to the Board, a person serving both as a director and the Secretary to the Board shall not make such an act by relying on his/her dual identity.

President and Other Senior Management

The Company shall have one president, who shall be appointed or removed by the Board of Directors. Directors may be appointed concurrently as the president, vice presidents or other senior management. However, the number of directors concurrently serving as the president, vice presidents or other senior management shall not exceed half of the total number of the directors of the Company.

A person who holds a post other than a director in an entity owned by the controlling shareholder or actual controller of the Company shall not act as the senior management of the Company.

The president shall be appointed for a term of three years subject to re-appointment.

The president shall be accountable to the Board and perform the following duties:

- (1) to be in charge of the production, operation and management of the Company and report his/her work to the Board;
- (2) to prepare and implement the resolutions by the Board of Directors, annual operation plan and investment plan of the Company;
- (3) to formulate the management structure of the Company;
- (4) to formulate the basic management system of the Company;
- (5) to formulate rules and regulations for the Company;
- (6) to implement compliance management of daily operations;
- (7) to propose to the Board the appointment or dismissal of the vice presidents, financial officers, chief operating officer, chief investment officer, director of investment banking and other senior management;
- (8) to appoint or dismiss management members other than those required to be appointed or dismissed by the Board;
- (9) to prepare plans for salary, welfare, incentive and penalty and decide the dismissal and recruitment of employees of the Company;
- (10) to propose to the Board of Directors the convening of interim meetings;
- (11) to decide disposal of material assets and financing matters of which single operation capital or accumulated operation capital in four months does not fall within the consideration authority limit of the Board of Directors; and
- (12) to perform other duties delegated by the Articles of Association or the Board.

A non-director president may attend the meetings of the Board of Directors, but do not have the right to vote.

The working rules of the president shall be prepared by himself/herself for approval of the Board.

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The senior management shall abide by laws, administrative regulations and the Articles of Association of the Company and fulfill the obligations of good faith and diligence. If a senior management violates any laws, administrative regulations, departmental rules and the Articles of Association during performing his/her duties of the Company and causes losses to the Company, such a senior management shall be liable for compensation.

Chief Compliance Officer

The Company shall have a chief compliance officer who is responsible for the compliance of the Company and a senior management of the Company. The chief compliance officer shall be accountable to the Board and be responsible for daily work of the chief compliance officer. The chief compliance officer shall report his/her work to the Chairman.

The chief compliance officer shall not concurrently hold a post contrary to his/her compliance management duties and shall not be in charge of a department of which the functions are contrary to the compliance management duties.

The chief compliance officer shall have the qualifications required by laws and regulations, be nominated by the Chairman, appointed and removed by the Board of Directors. The appointment and removal shall be in compliance with relevant provisions of laws and regulations.

The duties of the chief compliance officer shall be as follows:

- (1) to issue written compliance examination opinions with respect to internal management systems, major decisions, new products and new business plans of the Company. The chief compliance officer shall examine application materials or reports submitted to regulatory authorities by the Company as required and give opinions on the application materials or reports with his/her signatory;
- (2) to supervise the compliance of operation management and practices of the Company and its employees, and conduct regular and irregular examinations in accordance with requirements of securities regulatory authorities and regulations of the Company;
- (3) to report to the Board in a timely manner and to the Board of Supervisors, managers and regulatory authorities at the same time when violation of laws and regulations or compliance risk is found. The chief compliance officer shall also report to relevant self-regulatory organizations in the event of violation of industrial standards and self-regulatory rules;
- (4) to advise in a timely manner relevant organizations or departments of the Company on stopping and handling of potential violation of laws and regulations and compliance risk and supervise the rectification;
- (5) to maintain communication with securities regulatory authorities and industrial self-regulatory organizations, take initiative to cooperate with securities regulatory authorities and self-regulatory organizations;
- (6) to handle investigation required by securities regulatory authorities and self-regulatory organizations in the timely manner, cooperate with securities regulatory authorities and self-regulatory organizations in their examination and investigation on the Company, and track and evaluate the implementation of regulatory opinions and requirements;

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- (7) to organize compliance trainings for senior management and employees of the Company;
- (8) to provide compliance consultation to senior management, all departments and all branches of the Company;
- (9) to consult with securities regulatory authorities or self-regulatory organizations when there are ambiguities in laws, regulations and standards which affect his/her judgment on the operation and management and practice of the Company and its employees;
- (10) to organize and implement policies of anti-money laundering and control mechanism on internal information;
- (11) to handle complaints and reports regarding illegal acts and violations of the Company and employees; and
- (12) to perform other duties which are not contrary to the compliance management duties, as granted by the Board of Directors.

Supervisors and Board of Supervisors

Supervisors

Directors, president and other senior management members shall not concurrently act as supervisors.

The term of office of a supervisor shall be three years. Supervisors who are shareholders shall be elected or replaced by the shareholders' general meeting and supervisors who are employees shall be democratically elected or replaced by the Company's employees. The term is renewable upon re-election and re-appointment. Any supervisor who fails to attend supervisory committee meetings in person or by proxy three times consecutively, shall be deemed non-performance of duties and shall be removed and replaced by the shareholders' general meeting or the general meeting of employees' representatives.

If a supervisor is removed from his/her office by the shareholders' general meeting before the expiration of his/her term, relevant explanation shall be provided. The supervisor being removed shall be entitled to speak at the shareholders' general meeting, the CSRC or its local branches.

The supervisors may attend the board meetings and raise questions or make suggestions with respect to the resolutions of the Board.

Board of Supervisors

The Company shall have the Board of Supervisors. The Board of Supervisors shall consist of seven supervisors, of which the staff representatives shall account for at least a third. The staff representatives in the Board of Supervisors are elected by the staff of the Company through staff representatives' meeting, staff meeting or otherwise by democratic election.

A chairman and a vice chairman shall be elected by the Board of Supervisors. The Chairman of the Board of Supervisors shall be in charge of the Board of Supervisors and is responsible for convening and presiding over meetings thereof. Work and Meetings of the Board of Supervisors shall be convened and presided over by the chairman of the Board of Supervisors. The chairman shall make a work report to the shareholders' general meeting on behalf of the Board of Supervisors. Where the chairman of the Board of Supervisors is incapable of performing his/her duties, a vice chairman of the Board of Supervisors shall perform such duties on behalf of the chairman of the Board of Supervisors.

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Where the vice chairman of the Board of Supervisors is incapable of performing his/her duties, a supervisor elected by not less than half of the supervisors shall perform such duties on behalf of the vice chairman of the Board of Supervisors.

The appointment and removal of the chairman and vice chairman of the Board of Supervisors shall be determined by the affirmative votes of two-thirds or more of the members of the Board of Supervisors.

The Board of Supervisors shall perform the following duties:

- (1) to review the periodical reports of the Company prepared by the Board and to provide comments in writing;
- (2) to inspect the financial and compliance management of the Company;
- (3) to require Directors, president or other senior management to rectify their behaviors in breach of relevant laws or regulations or damaging the interests of the Company, shareholders or clients during the performance of their duties within a limited period. Where the damage is material or relevant directors or senior management members fail to rectify such behaviors within the required period of time, proposal shall be made to remove such directors or senior management members or to convene a shareholders' general meeting to submit a special resolution to such shareholders' general meeting;
- (4) to report the material breaches of directors and senior management members directly to the CSRC or the bodies assigned by it;
- (5) to require the board to rectify the resolutions of the board that are in breach of relevant laws, administrative regulations or the requirements of CSRC;
- (6) to propose to convene an extraordinary general meeting and to convene and preside over the shareholders' general meeting if the Board fails to do so as required by the Company Law or the Article of Association;
- (7) to propose motions in a shareholders' general meeting;
- (8) to examine the financial information such as the financial reports, operating reports and distribution plans of profits to be submitted by the Board to the shareholders' general meetings. Where any irregularities are found, the Board of Supervisors may engage certified public accountants or certified auditors to help to recheck in the name of the Company;
- (9) to initiate litigations against the Directors, the president and other senior management of the Company in accordance with the provisions of the Company Law or the Articles of Association;
- (10) to perform other duties stipulated in the Articles of Association of the Company or granted by shareholders' general meetings.

The Board of Supervisors shall convene at least one meeting every six months and the meeting notice shall be delivered to all supervisors ten days prior to the convening of the meeting. An extraordinary meeting of the Board of Supervisors shall be convened if so proposed by the supervisors. The meeting notice shall be made in writing and delivered to all supervisors by letter, fax or hand five days prior to the convening of the meeting. In case of an emergency in which an extraordinary meeting

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must be held as soon as possible, the meeting notice can be sent via phone, fax or e-mail, but the convener of the meeting shall give an explanation at the meeting.

Resolutions of the Board of Supervisors

The meeting of the Board of Supervisors shall be held when more than 50% supervisors of the Board of Supervisors attend the meeting. Each supervisor shall have one voting right.

The resolution made by the Board of Supervisors shall be approved by more than two-thirds of the members of the Board of Supervisors.

The Board of Supervisors shall maintain meeting minutes. Supervisors attending the meeting and the recorders shall sign on the minutes. Each supervisor shall be entitled to request that an explanation of his/her comments made at the meetings shall be recorded in the minutes. The minutes of the meetings of the Board of Supervisors (including the meeting notice and meeting materials, attendance book, recording materials of the meeting, votes, meeting records signed and confirmed by the participating supervisors, resolution notices and others) shall be maintained by a person appointed by the chairman of the Board of Supervisors and shall be kept for no less than 20 years.

Qualifications and Duties of the Directors, Supervisors, President and other Senior Management

In the conditions as set out below, the following persons shall not serve as Directors, Supervisors, president or other senior management of the Company:

- (1) persons without civil capacity or with limited civil capacity;
- (2) persons who have committed offences relating to corruption, bribery, embezzlement, misappropriation of property or disruption of social economic order and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence, or who have been deprived of their political rights due to the commission of a criminal offense, where less than five years have elapsed since the date of restoring their political rights;
- (3) persons who were former directors, factory managers or managers of a company or enterprise which was declared bankrupt and was liquidated due to poor operation and management and who were personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- (4) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the laws and who were personally liable, where less than three years have elapsed since the date of the revocation;
- (5) persons who have a substantial amount of debts due and outstanding;
- (6) persons who were investigated by judicial offices and the lawsuit is not settled yet;
- (7) persons who cannot serve as corporate leaders according to laws and administrative regulations;
- (8) non-natural persons;
- (9) persons who have been convicted by the competent authority for violation of securities regulations and acting fraudulently or dishonestly, where less than five years have elapsed since the date of conviction; and

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- (10) persons who do not meet the requirements of relevant laws, regulations, rules and qualifications stipulated by regulatory departments located in a place where the Company's shares are listed as well as other circumstances required by the Article of Association of the Company.

The validity of the conduct of Directors, president or other senior management who act in good faith on behalf of the Company with respect to third parties shall not be affected by any irregularity in their appointment, election or qualification.

The directors, supervisors, president and other senior management of the Company shall perform their duties in accordance with the principle of honesty and shall not put themselves in a position where their duties and their interests may conflict. These principles include but not limited to the following:

- (1) to act honestly in the best interests of the Company;
- (2) to exercise powers within the scope of their powers;
- (3) to exercise their discretion vested in them and not to allow themselves to act under the control of another and, unless and to the extent permitted by the laws, administrative regulations or with the consent of shareholders' general meeting, not to delegate others to exercise their discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) not to enter into any contract, transaction or arrangement with the Company unless otherwise provided by the Articles of Association or with the consent of shareholders' general meeting;
- (6) not to use the Company's property for their own benefit without the consent of shareholders' general meeting;
- (7) not to exploit their positions to accept bribes or other illegal income or expropriate the property of the Company by any means, including but not limited to opportunities advantageous to the Company;
- (8) not to accept commissions in connection with the transactions of the Company without the consent of shareholders' general meeting;
- (9) to abide by the Articles of Association, perform their official duties faithfully and protect the interests of the Company, and not to exploit their positions and powers in the Company for their own interests;
- (10) not to compete with the Company in any way unless with the consent of shareholders' general meeting;
- (11) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in their own names or other names for the deposit of the assets of the Company and not to provide guarantee for debts of a shareholder of the Company or other individual(s) with the assets of the Company;
- (12) unless otherwise permitted by shareholders' general meeting, to keep confidential the information acquired by them in the course of and during their tenure and not to use the

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information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other government authorities is permitted if the disclosure is:

- (i) by order of the laws;
- (ii) in the interests of the public;
- (iii) in the interest of the relevant director, supervisor, president or other senior management.

The fiduciary duties of the Directors, Supervisors, president and other senior management of the Company do not cease with the termination of their tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairly required depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

Unless otherwise provided by the Articles of Association of the Company, duties imposed on Directors, Supervisors, president and other senior management due to violation of a specific obligation by such persons may be discharged as consented by a shareholders' general meeting.

Where a Director, Supervisor, president and any other senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his/her contract of service with the Company), he/she shall declare the nature and extent of his/her interests to the Board as soon as possible, whether or not the related matters under normal circumstances is subject to the approval of the Board.

The Company shall not in any manner pay taxes on behalf of a director, supervisor, president and other senior management of the Company.

The Company shall not, directly or indirectly, make a loan or provide any guarantee for a loan to a director, supervisor, president and other senior management of the Company or the Company's parent company or any of their respective associates.

The prohibition mentioned in the preceding provisions shall not apply to the following circumstances:

- (1) a loan or a guarantee for a loan by the Company to its subsidiaries;
- (2) a loan or a guarantee for a loan or other funds to any of its directors, supervisors, president and other senior management by the Company to meet expenditure incurred or to be incurred by him/her in the interests of the Company or for the purpose of enabling him/her to perform duties for the Company in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- (3) the Company can make a loan or provide any guarantee for a loan to a Director, Supervisor, president and other senior management of the Company in the ordinary course of business, providing that the conditions for the loan and the guarantee shall be on normal commercial terms.

A loan made by the Company, regardless of its conditions, in breach of the aforesaid regulations shall be repaid immediately by the recipient of the loan.

APPENDIX V

SUMMARY OF ARTICLES OF ASSOCIATION

In addition to the rights and remedies provided by the laws and administrative regulations, where a director, supervisor, president and other senior management of the Company is in breach of his/her duties to the Company, the Company has the right to:

- (1) claim damages from such director, supervisor, president and other senior management for losses incurred to the Company as a result of his/her dereliction of duty;
- (2) rescind any contract or transaction entered into by the Company with the director, supervisor, president and other senior management or with a third party (where such third party knows or should have known that there is a breach of duties of such director, supervisor, president and other senior management);
- (3) require the director, supervisor, president and other senior management to surrender the profits made due to a breach of duties;
- (4) recover any money received by the director, supervisor, president and other senior management which should have been received by the Company, including but not limited to commissions;
- (5) require the payment of interest earned or which may have been earned by the director, supervisor, president and other senior management on the money that should have been paid to the Company.

The Company shall enter into written contracts on issues regarding the remuneration with the directors and supervisors, and submit such contracts to the shareholders’ general meeting for approval. The Company shall stipulate the following upon entering into a remuneration-related contract with a director or supervisor: when the company is acquired, the directors or supervisors of the Company shall have the right to obtain compensation or other funds for the loss of their positions as directors or supervisors or for retirement, subject to prior approval of the shareholders’ general meeting.

FINANCIAL AND ACCOUNTING SYSTEM, PROFIT DISTRIBUTION AND AUDIT

Financial and Accounting Systems

The Company shall establish its financial and accounting systems in accordance with the laws administrative regulations and the requirements of the relevant governmental authorities.

The Company shall prepare an annual financial report within 120 days upon expiration of each fiscal year; the Company shall prepare an interim financial report within 2 months from the end of the first 6 months of each fiscal year and submitted the same to the local branch office of the CSRC and the stock exchange in which shares of the Company are listed; and the Company shall prepare and submit to the local branch office of the CSRC and Shanghai Stock Exchange a quarterly financial report within 1 month from of the end of first 3 months and first 9 months of each fiscal year, respectively.

The abovementioned financial reports shall be prepared in accordance with relevant laws, administrative regulations and departmental rules, and shall be disclosed in accordance with the requirements of the securities regulatory authorities of the locality where shares of the Company are listed.

The Board of Directors of the Company shall submit financial reports prepared by the Company as are required by relevant laws, administrative regulations or normative documents promulgated by local government and competent department, to the shareholders at every annual general meeting.

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SUMMARY OF ARTICLES OF ASSOCIATION

In addition to the PRC accounting standards and regulations, the financial statements of the Company shall also be prepared in accordance with the international accounting standards or the accounting standards of the place outside the PRC where the shares of the Company are listed. Any material discrepancy between the financial statements prepared in accordance with two different accounting standards shall be explained in the notes to the financial statements. Distribution of profits after tax of the relevant financial year shall be based on the lower of the profits after tax shown in the two financial statements mentioned above.

Interim results or financial information published or disclosed by the Company shall be prepared in accordance with the PRC accounting standards and regulations as well as international accounting standards or the accounting standards of the place outside the PRC where shares of the Company are listed.

The Company shall not keep accounts other than those required by laws. The assets of the Company shall not be kept under the name of any individual.

Profit Distribution

Capital reserve fund includes the following items:

- (1) premium proceeds from the shares issued over their par value;
- (2) any other income required to be included in the capital reserve fund by the competent finance department of the State Council.

The profits after income tax paid by the Company shall be distributed in the following order:

- (1) to make up the losses of the previous year;
- (2) to extract 10% as general risk reserve fund;
- (3) to extract 10% as statutory reserve fund;
- (4) to extract 10% as transaction risk reserve fund;
- (5) to extract discretionary reserve fund; and
- (6) to distribute dividends to shareholders.

When the aggregate statutory reserve fund of the Company has reached 50% or more of the registered capital, the Company may cease to make further contribution.

The appropriation of discretionary reserve fund subsequent to the appropriation of the statutory reserve fund should be determined by the shareholder's general meeting. The Company shall make appropriation of the general risk reserve fund at the proportion as stipulated by the CSRC. When the balance of the general risk reserve fund has reached 50% of the registered capital, the Company may cease to make any further contribution. The Company shall not distribute any profits to its shareholders before making up the losses and making appropriation of general risk reserve fund, statutory reserve fund and transaction risk reserve fund.

If a shareholders' general meeting violates the provisions in the preceding paragraph and profits are distributed to the shareholders before the Company making up losses and making allocations to the statutory reserve fund, the profits distributed in violation of the provisions shall be returned to the Company.

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No profit shall be distributed in respect of the shares of the Company which are held by the Company.

The Company implements a sustainable and stable profit distribution policy, and places a great emphasis on the reasonable investment returns of its investors as well as the long-term development of the Company.

The Company may distribute its profits in cash, shares or a combination of both or in any other forms as permitted by the laws. The Company adopts cash dividend as its priority dividend distribution policy, i.e. the Company shall distribute its dividends in cash when the accumulated undistributed profits are positive and if there are distributable after-tax profits available after making up losses, and making appropriation of various accumulation funds and reserve funds in accordance with the laws. The profit distributed by the Company shall not exceed its accumulated distributable profit. Profit distributed in cash in a single year shall be no less than 30% of the distributable profit of that year. The Company generally distributes its profit on a yearly basis. Subject to the compliance of the profit distribution principle and cash distribution conditions, the Company may also distribute interim cash dividends. If the Company grows rapidly and the Board considers that there is a mismatch between Company's share price and the size of its share capital, the Company may, after making the above cash dividends and taking into consideration the growth of the Company and the diluted net assets per share, propose and implement a proposal on distribution of dividends in cash.

The decision-making procedures of the profit distribution plan of the Company shall be as follows: the Board shall formulate a clear and definite shareholders' return plan every three years after carrying out a thorough discussion of the conditions and percentage of profit distribution, the development stage of the Company, and its significant capital expenditure plans; and the Company shall formulate profit distribution plan for the current period after conducting careful research into and deliberation on the timing, conditions and minimum percentage of cash dividends as well as conditions of adjustment. The profit distribution proposal proposed by the Board of Directors shall be passed by a majority of the directors of the Company, and independent directors shall express their independent opinions on the profit distribution plan before it is submitted to the shareholders' general meeting for consideration and approval. When the profit distribution plan is considered at the shareholders' general meeting, the Company shall communicate and contact with its shareholders, especially minority shareholders, and discuss in detail and exchange ideas with shareholders on the profit distribution plan.

The decision-making procedures for the adjustment of the profit distribution policy of the Company are as follows: where the Company needs to adjust its profit distribution policy in light of industrial regulatory policies, business operation, investment plans and long-term development of the Company, or due to significant changes in the external operating environment or business operation of the Company, the adjusted profit distribution policy shall not violate relevant laws, regulations and relevant requirements of the CSRC and the stock exchange. The proposal on the adjustment of the profit distribution policy shall be formulated by the Board of Directors based on the operating condition of the Company and relevant regulations and policies, and it shall be submitted to the shareholders' general meeting for consideration. When formulating the proposal on the adjustment of the profit distribution policy, the Board of Directors shall listen fully to the opinions of the independent Directors and discuss their opinions in detail. The proposal on the adjustment of the profit distribution policy formulated by the Board of Directors shall be approved by a majority of all directors of the Company, and independent directors shall express their independent opinions on such proposal. The Board of Supervisors shall monitor the adjustment of profit distribution policy by the Board of

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Directors. The shareholders’ general meeting shall communicate and contact with the shareholders, especially the minority shareholders, and make full discussion and communication with them before considering the proposal on the adjustment of profit distribution policy. The proposal on the adjustment of the profit distribution policy shall be approved by 2/3 of the voting rights represented by the shareholders (including proxies) present at the shareholders’ general meeting, and the Company shall provide an online voting system to facilitate the shareholders to vote on the relevant proposal.

In the event of misappropriation of funds of the Company by any shareholders, the Company shall deduct the cash dividends attributable to such shareholders to such extent as to repay the above funds.

The common reserve funds of the Company shall be applied for making up for losses, expanding the Company’s production and operation or capitalisation. However, the capital reserve fund shall not be applied for making up losses of the Company.

When the common reserve funds are converted into share capital, the Company shall distribute new shares to the shareholders according to their original shareholdings. The statutory reserve fund after capitalisation shall not be less than 25% of the registered capital of the Company before the capitalisation.

After the profit distribution plan has been adopted at shareholders’ general meeting, the Board shall complete the dividend (or share) distribution within 2 months after the end of the shareholders’ general meeting.

Any amount paid up on any shares before a call is confirmed by the Company shall be entitled to dividends thereon, except for any dividends declared thereafter.

Subject to relevant laws, regulations, rules and regulative documents, the Company may confiscate any unclaimed dividends after the expiry of the applicable term of validity.

If dividend warrants have been left uncashed on two consecutive occasions, the Company shall be entitled to stop sending dividend warrants to holders of overseas-[REDACTED] foreign-invested shares by post. However, such power may be exercised after the first occasion on which such a warrant is returned and undelivered.

The Company shall have the power to sell, in such manner as the Board thinks fit, any overseas-[REDACTED] foreign-invested shares of a holder who is untraceable subject to the following conditions:

- (1) the Company has distributed dividends at least three times in respect of such shares within 12 years, but none of such dividends was claimed; and
- (2) the Company, after the expiration of a period of 12 years, made an announcement in one or more newspapers in the place in which the Company is listed, stating its intention to sell such shares, and notifying the securities regulatory authority of the place in which the Company is listed of such intention.

The Company shall appoint receiving agents on behalf of the holders of overseas-[REDACTED] foreign invested shares to receive, on behalf of the relevant shareholders, the dividends declared and all other receivables.

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The receiving agents appointed for holders of overseas-[REDACTED] foreign-invested shares [REDACTED] in the Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Internal Audits

The Company shall adopt an internal audit system and designate auditors to supervise the internal audits of incomes and expenses as well as the business activities of the Company.

The internal audit system of the Company and the duties of auditors shall come into effect upon the approval of the Board. The person in charge of audits shall be accountable to and report to the Board.

Appointment of Accounting Firm

The Company shall appoint an independent accounting firm that is qualified under the relevant national regulations to engage in the securities related business to audit the financial statements, verify the net assets, audit other financial reports of the Company and provide other relevant consultancy services.

The accounting firm appointed by the Company shall hold office for a period of one year commencing from the end of the annual general meeting of the Company and expiring upon the end of the next annual general meeting and which is subject to renewal.

The accounting firm appointed by the Company shall have the following rights:

- (1) to review the accounts, financial statements, records and vouchers of the Company, and to require the Directors, general manager or other senior management of the Company to supply relevant information and explanations;
- (2) to require the Company to obtain from its subsidiaries such information and explanations as are necessary for the discharge of the duties of accounting firm; and
- (3) to attend shareholders' general meetings and to receive all notices of, and other information relating to, any shareholders' general meeting, and to speak at any shareholders' general meeting in relation to matters concerning its role as the accounting firm of the Company.

Notwithstanding the terms set out in the contract between the Company and the accounting firm, Shareholders at a shareholders' general meeting may, by way of ordinary resolution, remove the accounting firm before the expiration of its term of office, but without prejudice to the right of the firm to claim for damages in respect of such removal.

The remuneration of the accounting firm or the way in which the firm is to be remunerated shall be determined by the shareholders' general meeting. The remuneration of the accounting firm appointed by the Board shall be determined by the Board.

The engagement, renewal, dismissal or discontinuation of an accounting firm shall be decided by the shareholders' general meeting, and be reported to the securities authority under the State Council.

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Prior notice shall be given to the accounting firm if the shareholders’ general meeting decides to remove or not to renew the appointment. The accounting firm shall be entitled to make representations at the relevant shareholders’ general meeting.

If an accounting firm resigns from its position, it shall make representations to the shareholders’ general meeting whether there has been any impropriety on the part of the Company.

An accounting firm may resign its office by depositing a written resignation notice at the legal address of the Company. Resignation of the accounting firm shall become effective on the date of such deposit or on such later date stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances in connection with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any other circumstances requiring an explanation.

Where the above notice is deposited, the Company shall within 14 days send a copy of the notice to the relevant governing authority. If the notice contains a statement under Clause (2) of this Article, a copy of such statement shall be placed at the Company for shareholders’ inspection. Unless otherwise specified by the Articles of Association, the Company shall also send a copy of such statement by prepaid mail to every holder of overseas [REDACTED] foreign shares at the address registered in the register of shareholders.

If the notice of resignation of an accounting firm contains a statement in respect of any circumstances requiring an explanation, it may require the Board to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances in connection with its resignation.

Notice and Announcement

A notice of the Company shall be sent by:

- (1) hand;
- (2) mail;
- (3) announcement;
- (4) fax or email;
- (5) making announcement in the Company’s website or the websites designated by stock exchange in accordance with the laws, regulations and listing rules of the place where the Company’s shares are listed;
- (6) other means recognized by the Company, or agreed by the recipient of the notice in advance or recognized by the recipient of the notice after receiving such notice; and
- (7) other means recognized by regulatory authorities of the place where the Company’s shares are listed or stated in the Articles of Association.

Where a notice is served by way of announcement, after the publication of such announcement, all related persons shall be deemed to have received the notice unless it is otherwise required by the regulatory authorities of the place where the Company’s shares are listed.

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For notice issued by the Company to holders of overseas-[REDACTED] foreign shares by way of announcement, the Company shall on the same day submit an electronic version to the Hong Kong Stock Exchange through the Hong Kong Stock Exchange EPS for immediate release on the website of the Hong Kong Stock Exchange in accordance with the rules of the listing place. The announcement shall also be published on the Company’s website. In addition, unless otherwise required in the Articles of Association, communications from the Company shall be delivered to the registered addresses as recorded in the register of members of overseas-[REDACTED] foreign shares by hand or paid mail so as to give the shareholders sufficient notice and time to exercise their rights or act in accordance with the terms of the notice.

Holders of the Company’s overseas-[REDACTED] foreign shares may choose in writing to receive the corporate communication that the Company must send to shareholders either using electronic means or by post, and may also choose to receive the Chinese version only or the English version only or both the Chinese and English versions. They shall have the right to change their choices at any time by giving reasonable prior written notice to the Company in accordance with applicable procedures.

If a notice of meeting is accidentally not sent to a person who is entitled to receive the notice or if such person has not received the notice of meeting the meeting and any resolutions made therein shall not become void thereby.

Merger, Division, Capital Increase, Capital Reduction, Dissolution and Liquidation

Merger, division, capital increase and capital reduction

The merger or division of the Company shall be proposed by the board for approval by shareholders’ general meeting in accordance with the procedures provided in the Articles of Association and shall be processed according to the laws. A dissident shareholder may require the Company or the shareholders who are in favor of such proposal to acquire his/her shares at a fair price.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten days from the date on which the merger resolution is approved at the Company’s Shareholders’ meeting and shall publish an announcement on newspapers within 30 days from the date on which the merger resolution is approved at the Company’s Shareholders’ meeting.

In the event of a merger, a creditor has the right within 30 days of receiving such notice from the Company or, for creditors who do not receive the notice, within 45 days from the date of receiving the first notice, to demand the Company to settle its debts or provide a guarantee for such debt.

After the merger, rights in relation to debtors and indebtedness of each of the merged parties shall be assumed by the company which survives the merger or the newly established company.

When the Company is divided, its assets shall be split up accordingly.

The parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets.

The Company shall notify its creditors within ten days from the date of the Company’s resolution to divide and shall publish a notice through other ways such as a newspaper within 30 days from the date of the Company’s resolution to divide.

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Debts of the Company prior to division shall be jointly assumed by the companies which exist after the division, except provided otherwise in the written agreement between the Company and the creditors relating to the settlement of debt before the division.

When the Company is in the need of reducing its registered capital, it must prepare a balance sheet and an inventory of assets.

The Company shall notify the creditors within 10 days of the resolution for reducing its registered capital, and make an announcement in this regard within 30 days of the resolution for reducing its registered capital. A creditor has the right within 30 days of receiving such notice from the Company or, for creditors who do not receive the notice, within 45 days from the date of the announcement, to demand the Company to settle its debts or provide a guarantee for such debt.

The reduced registered capital of the Company will not be lower than the statutory minimum limit.

Changes in particulars of the companies after merger or division must be registered with the registration authorities in accordance with the laws. Cancellation of a company shall be registered in accordance with the laws when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated in accordance with the laws.

When increasing or reducing the registered capital, the Company shall register the changes with relevant registration authorities in accordance with the laws.

Dissolution and liquidation

The Company shall be dissolved and liquidated according to the laws upon the occurrence of the following events:

- (1) the advent reasons for dissolution as specified in the Articles of Association.
- (2) a resolution on dissolution is passed by shareholders at a Shareholders' meeting;
- (3) dissolution is necessary due to merger or division;
- (4) the Company's business license is revoked or the Company is ordered to close down or de-registered due to its breach of laws and regulations;
- (5) where the Company gets into serious trouble in operation and management and its continuation may cause substantial loss to the interests of shareholders, and no solution can be found through any other channel, shareholders representing more than 10% of the voting rights of all shareholders of the Company may request the people's court to dissolve the Company; and
- (6) the Company is legally declared bankrupt due to its failure to repay debts due.

The Company can seek for continuation by amending its Articles of Association under the circumstances of (1) mentioned above. Where the Company is dissolved under the circumstances of (1), (2), (4) and (5), the Company shall establish a liquidation committee within fifteen days upon the approval of the supervisory and administrative authorities for securities under the State Council. The liquidation committee shall consist of directors or the persons determined by the Shareholders' meeting. If the Company fails to establish a liquidation committee on time, creditors may request the people's court to designate certain persons to form a liquidation committee to perform liquidation.

APPENDIX V

SUMMARY OF ARTICLES OF ASSOCIATION

The board and president shall lose their powers immediately after the resolution for liquidation is passed at the Shareholders’ meeting. During the liquidation, the Company shall be forbidden to carry out any new operating activities.

The liquidation committee shall perform the following duties during the liquidation:

- (1) to notify creditors by notice or announcement;
- (2) to examine the Company’s assets and prepare a balance sheet and an inventory of assets;
- (3) to deal with the outstanding affairs of the Company in relation to the liquidation;
- (4) to settle outstanding taxes as well as taxes arising in the course of liquidation;
- (5) to settle credits and debts;
- (6) to dispose of the remaining assets of the Company after the settlement of debts; and
- (7) to represent the Company in any civil proceedings.

The liquidation committee shall notify creditors within ten days from the date of its establishment and make public announcement on newspapers required by law within 60 days of its establishment.

Creditors shall declare their claims to the liquidation committee within the period of time required in the Company Law. When declaring their claims, creditors shall describe the matters relating to such claims and provide related supporting materials. The liquidation committee shall register such claims. When creditors declare their claims, the liquidation committee shall not compensate the creditors.

After checking the Company’s assets and preparing a balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan for approval of the shareholders’ general meetings or relevant competent authorities.

The assets of the Company shall be applied in the following order:

- (1) payment of the settlement expenses;
- (2) payment of salaries, social insurance expenses and statutory compensation of the Company’s staff;
- (3) payment of outstanding taxes;
- (4) settlement of the Company’s debts;
- (5) distribution to shareholders according to their proportion of shares.

Before the assets of the Company are applied for settlement in accordance with the requirements of (1) to (4) above, they cannot be distributed to shareholders.

The remaining assets of the Company after application for settlement in accordance with the above provisions shall be distributed to shareholders according to their proportion of shares held.

If the liquidation committee, after ascertaining the Company’s assets and preparing a balance sheet and an inventory of assets, determines that the Company’s assets are insufficient to settle its debts, it shall immediately apply to the people’s court for a declaration of bankruptcy. After the Company is declared bankrupt by a ruling of the people’s court, the liquidation committee shall transfer the liquidation matters to the people’s court.

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Upon completion of liquidation, the liquidation committee shall prepare a liquidation report and a statement of the receipts and payments and the financial accounts for the liquidation period which shall be submitted to the shareholders’ general meeting or relevant competent authorities for approval.

The liquidation committee shall apply for cancellation of company registration to the company registration authority, and announce the termination of the Company in accordance with laws within 30 days after approval is obtained from the shareholders’ general meeting or relevant competent authorities for the liquidation report.

Where the Company is declared bankrupt in accordance with laws, it shall be liquidated for bankruptcy pursuant to the laws relating to the bankruptcy of enterprises.

Amendments to the Articles

The Company shall amend the Articles of Association under any of the following situations:

- (1) there is a conflict between the Articles of Association and the laws and administrative regulations after the amendment to the Company Law or relevant laws and administrative regulations;
- (2) there are changes in the Company rendering the Articles of Association incorrect;
- (3) the shareholders’ general meeting resolves to amend the Articles of Association.

Where the amendments to the Articles of Association passed by the Shareholders’ meetings require approval of the competent authorities, the amendments shall be submitted to the relevant authorities for approval. If the amendment involves any registered particulars of the Company, application shall be made for change of registration in accordance with the laws.

Settlement of Disputes

The Company follows the following rules for the settlement of disputes:

- (1) All disputes and claims between shareholders of overseas-[REDACTED] or foreign-invested shares and the Company, between shareholders of overseas-[REDACTED] or foreign-invested shares and the Company’s Directors, Supervisors and other senior management, or between Shareholders of overseas-[REDACTED] or foreign-invested shares and other Shareholders arising from these Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company shall be referred by the relevant parties to arbitration.

The dispute or claim shall be referred to arbitration as a whole. All parties involved in the same dispute or claim shall abide by the arbitration if such parties are the Company or the Shareholder, Director, supervisor, president or other senior management of the Company.

Disputes in relation to the definition of shareholders and register of shareholders need not be resolved by arbitration.

- (2) A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its Arbitration Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

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If a claimant elects arbitration at Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

- (3) If any disputes or claims of rights prescribed in subparagraph (1) above are referred to arbitration, the laws of the PRC shall apply, save as otherwise provided in laws, regulations, rules and normative documents.
- (4) The award of an arbitration body shall be final and conclusive and binding on all parties.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

The predecessor of our Company, Orient Securities Limited Liability Company (東方證券有限責任公司), was established on December 10, 1997. On October 8, 2003, we were converted into a joint stock limited liability company and renamed as “東方證券股份有限公司”. Our registered office is located at 22/F, 23/F and 25-29/F, Building 2, No. 318 Zhongshan South Road, Shanghai, PRC.

We have established a place of business in Hong Kong at 28-29/F, 100 Queen’s Road Central, Central, Hong Kong and were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on August 10, 2015 under the Chinese corporate name of 東方證券股份有限公司. We have also applied to, and the Commissioner of Inland Revenue has given approval to, adopt “東方證券” (in Chinese) and “DFZQ” (in English) as our approved business names for carrying on business in Hong Kong under section 8(1) of the Business Registration Ordinance, which were registered with the Inland Revenue Department on July 7, 2015. Mr. LUI Joy Yue has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong as set out above.

As our Company was established in the PRC, we are subject to relevant laws and regulations of the PRC. A summary of the relevant aspects of laws and regulations of the PRC and our Articles of Association is set out in Appendices IV and V to this document respectively.

B. Changes in the Share Capital of Our Company

As approved by the CSRC, the Company issued 1,000,000,000 A Shares as part of the A shares offering, such shares having been listed on the Shanghai Stock Exchange since March 23, 2015. Immediately following the A Shares Offering, the registered capital of the Company was increased from RMB4,281,742,921 to RMB5,281,742,921.

There has been no alteration in our registered capital since our listing on the Shanghai Stock Exchange.

Upon completion of the [REDACTED] and after the conversion of A Shares to H Shares and the transfer to NSSF pursuant to applicable PRC regulations relating to reduction of state-owned shares, but without taking into account any exercise of the [REDACTED], our registered capital will increase to RMB[REDACTED], comprising [REDACTED] A Shares and [REDACTED] H Shares fully paid up, representing approximately [REDACTED]% and [REDACTED]% of our registered capital, respectively.

C. Shareholders’ Resolutions

Pursuant to the Shareholders’ meeting held on September 22, 2015, the following resolutions, among others, were duly passed:

(a) the issue by our Company of H Shares of nominal value of RMB1.00 each and such H Shares be listed on the Hong Kong Stock Exchange;

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STATUTORY AND GENERAL INFORMATION

(b) the number of H Shares to be issued before the exercise of the [REDACTED] shall not be more than [REDACTED], and granting the [REDACTED] the [REDACTED] of no more than [REDACTED] H Shares;

(c) subject to the completion of the [REDACTED], the conditional adoption of the Articles of Association, which shall become effective on [REDACTED]; and

(d) authorization of the Board and its authorized persons to handle all matters relating to, among other things, the [REDACTED], the issue and [REDACTED] of the H Shares.

D. Further Information about Our Subsidiaries

The list of our principal subsidiaries as of December 31, 2015 is set out in the Accountants' Report, the text of which is set out in Appendix I to this document. Save as disclosed below, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this document.

- a) On October 27, 2014, Orient Securities Capital Investment increased its registered capital to RMB1,700,000,000. On September 18, 2015, Orient Securities Capital Investment increased its registered capital to RMB2,500,000,000.
- b) On July 24, 2014, Orient Finance Hong Kong increased its registered capital to HK\$700,000,000. On June 24, 2015, Orient Finance Hong Kong increased its registered capital to HK\$1,000,000,000.
- c) On June 17, 2014, Orient Securities (Hong Kong) Limited increased its share capital to HK\$150,000,000. On September 11, 2014, Orient Securities (Hong Kong) Limited increased its share capital to HK\$200,000,000. On April 14, 2015, Orient Securities (Hong Kong) Limited increased its share capital to HK\$300,000,000. On May 22, 2015, Orient Securities (Hong Kong) Limited increased its share capital to HK\$400,000,000. On October 2, 2015, Orient Securities (Hong Kong) Limited increased its share capital to HK\$550,000,000.
- d) On October 13, 2014, Orient Capital (Hong Kong) Limited increased its share capital to HK\$15,010,000.
- e) On October 30, 2014, Orient Ruide Investment Management increased its registered capital to RMB570,000,000.
- f) On 6 February, 2015, Orient Futures (Hong Kong) Limited increased its share capital to HK\$30,000,000. On November 20, 2015, Orient Futures (Hong Kong) Limited increased its share capital to HK\$55,000,000. On December 28, 2015, Orient Futures (Hong Kong) Limited increased its share capital to HK\$230,000,000.
- g) On April 29, 2015, Orient Securities Innovation Investment increased its registered capital to RMB1,100,000,000.
- h) On March 7, 2016, Orient Securities Futures increased its registered share capital to RMB1,000,000,000.
- i) On March 30, 2016, Shanghai Orient Ruide Equity Investment Funds Co., Ltd. increased its registered capital to RMB2,500,000,000.

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2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this document, which are or may be material and a copy of each has been delivered to the Registrar for registration:

- (a) the [REDACTED] dated [REDACTED], entered into between the Company and [REDACTED], pursuant to which [REDACTED] agreed to subscribe for such number of our Shares (rounded down to the nearest whole board lot) which may be purchased in the aggregate amount of Hong Kong dollars equivalent of US\$[REDACTED] at the [REDACTED]; and
- (b) [REDACTED] (as more specifically described in the section headed “Underwriting—Underwriting [REDACTED] and Expenses—[REDACTED]—[REDACTED]” in this Document).

B. Our Intellectual Property Rights

As of the Latest Practicable Date, our Company has registered or has applied for the following intellectual property rights, which are material in relation to our Company’s business.

Trademarks

As of the Latest Practicable Date, we have registered the following trademarks, which we consider to be material in relation to our business:

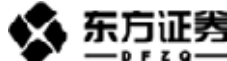
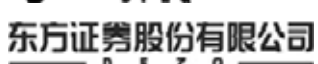
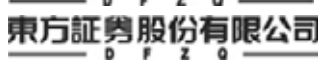
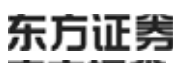
<u>Trademark registered</u>	<u>Place of registration</u>	<u>Registration No.</u>	<u>Class⁽¹⁾</u>	<u>Validity Period</u>
	PRC	1322330	36	From October 7, 1999 to October 6, 2019
	PRC	8378898	16	From June 21, 2011 to June 20, 2021
	PRC	9871046	36	From October 28, 2012 to October 27, 2022
	Hong Kong	303453408	16,35,36	From June 25, 2015 to June 24, 2025

(1) The class number represents the specifications of products or services that have already been registered. Detailed specifications of products or services represented by that class number are set out in the relevant registration certificates.

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As of the Latest Practicable Date, we have applied for the registration of the following trademarks, which we consider to be material in relation to our business:

Trademark	Place of registration	Class ⁽¹⁾	Application Number	Application Date
	Hong Kong	16,35,36	303608019	November 25, 2015
				
	Hong Kong	16,35,36	303608028	November 25, 2015
				
	Hong Kong	16,35,36	303608037	November 25, 2015
				
	Hong Kong	16,35,36	303608046	November 25, 2015
				

(1) The class number represents the specifications of products or services for which registration is sought. Detailed specifications of products or services represented by that class number are set out in the relevant application forms.

As of the Latest Practicable Date, we have registered or been authorized to use the following domain names which we consider to be material in relation to our business:

Domain name	Expiry Date
dfzq.com.cn	July 12, 2025
dzqh.com.cn	April 16, 2021
orientfutures.com	June 3, 2018
dfham.com	October 8, 2020
dfzt.com.cn	March 6, 2020
DFZQ.COM.HK	December 4, 2016
citiorient.com	June 2, 2017

3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

A. Particulars of Directors’ and Supervisors’ Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, (i) compliance of relevant laws of regulations, (ii) observance of the Articles of Association, and (iii) provisions on arbitration.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation other than statutory compensation).

B. Remuneration of Directors and Supervisors

The aggregate amount of salary and allowances, employer’s contribution to pension schemes, annual bonuses and independent directors’ fee, which were paid to our Directors and Supervisors in the three years ended December 31, 2013, 2014 and 2015 were approximately RMB12.7 million, RMB14.9 million and RMB13.0 million, respectively.

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Under the arrangements in force at the date of this document, our Directors (including independent non-executive Directors) and employee Supervisors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2016, is expected to be approximately RMB7.6 million and RMB5.2 million, respectively. The remuneration of Directors and Supervisors consists of annual bonuses and pension schemes contribution, which are determined based on the results of the Company in 2016. The actual remuneration of Directors and Supervisors in 2016 may be different from the expected remuneration. Our non-executive Directors and Supervisors (excluding employee Supervisors) do not receive any remuneration from the Company.

Save as disclosed above, there is no arrangement under which any Director or Supervisor has waived or agreed to waive any remuneration or benefits in kind for the three years ended December 31, 2013, 2014 and 2015.

See section headed “Appendix I—Accountants’ Report—Note 52: Directors’ and Supervisors’ Emoluments.”

4. DISCLOSURE OF INTERESTS

A. Disclosure of Interests of Directors and Supervisors

Immediately following the completion of the [REDACTED] assuming that the [REDACTED] is not exercised, none of our Directors or Supervisors has any interest and/or short position in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to be notified to our Company, once the Shares are [REDACTED] on the Hong Kong Stock Exchange.

Up to the Latest Practicable Date, none of the Directors or Supervisors or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

B. Disclosure of Interests of Substantial Shareholders

For information on the persons who will, immediately following the completion of the [REDACTED], have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, see the section headed “Substantial Shareholders.”

Interests of substantial shareholders in members of our Group (excluding our Company)

<u>Our subsidiaries</u>	<u>Registered capital</u>	<u>Parties with 10% or more equity interest</u>	<u>Approximate percentage of shareholding (%)</u>
Citi Orient	RMB800,000,000	Citigroup Global Markets Asia Limited	33.33%
Hangzhou Orient Yindi Investment Management Co., Ltd.	RMB20,000,000	Shanghai Yindi Investment Management Co., Ltd. (上海銀帝投資管理有限公司)	49.00%

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Our subsidiaries	Registered capital	Parties with 10% or more equity interest	Approximate percentage of shareholding (%)
Orient Xinghui (Beijing) Investment Fund Management Co., Ltd. . .	RMB8,800,000	Xinghuishangge Investment Consulting (Beijing) Co., Ltd. (星暉尚格投資諮詢(北京)有限公司)	42.00%
Orient Jiashi (Shanghai) Investment Management Co., Ltd.	RMB5,400,000	Harvest Capital Management Co., Ltd. (嘉實資本管理有限公司)	35.00%
Shanghai Orient Fuhou Equity Investment Management Co., Ltd. . .	RMB5,000,000	Shanghai Fuhou Equity Management Co., Ltd. (上海富厚股權管理有限公司)	42.00%
Orient Hongtai Capital Investment (Beijing) Co., Ltd.	RMB20,000,000	Yunzhuo Capital Investment (Beijing) Co., Ltd. 雲卓資本投資(北京)有限公司	49.00%
Orient Pansheng Investment Management Co., Ltd. (拉薩經濟技術開發區東證磐晟投資管理有限公司)	RMB5,000,000	Beijing Pansheng Asset Management Co., Ltd. (北京磐晟資產管理有限公司)	49.00%
Orient Guoxi Investment Management Co., Ltd. (拉薩經濟技術開發區東證國煦投資管理有限公司)	RMB5,000,000	Shanghai Guoxi Equity Investment Management Co., Ltd. (上海國煦股權投資管理有限公司)	49.00%
Xinjiang Orient Xinyu Equity Investment Management Co., Ltd. (新疆東證新城股權投資管理有限公司)	RMB5,000,000	Xinjiang Orient Jufu Equity Investment Management Limited Partnership (新疆東方聚富股權投資管理有限合夥企業)	49.00%
Shanghai Orient Chunyi Investment Management Co., Ltd.	RMB5,000,000	Li Jun (李君)	49.00%
Orient Tengjun (Shanghai) Investment Management Co., Ltd.	RMB5,000,000	Shanghai Tengjun Investment Management Co., Ltd. (上海騰駿投資管理有限公司)	49.00%
Haining Orient Sun Investment Management Co., Ltd.	RMB10,000,000	Liu Hong (劉紅)	39.00%
Shanghai Orient Jushi Investment Management Co., Ltd.	RMB5,000,000	Shanghai Jushi Investment Partnership (LLP) 上海桔石投資合夥企業(有限合夥)	49.00%

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C. Disclaimers

Save as disclosed in this document:

- (a) none of our Directors or Supervisors has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole; and
- (c) without taking into account any Shares which may be taken up under the [REDACTED], none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the [REDACTED], be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at shareholders’ meetings of any member of our Group in the Shares or underlying Shares of our Company.

5. OTHER INFORMATION

A. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

B. Joint Sponsors

As of the Latest Practicable Date, Citigroup Global Markets Asia Limited held 33.33% equity interest in Citi Orient, thus not satisfying the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Both Goldman Sachs (Asia) L.L.C. and Nomura International (Hong Kong) Limited satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for a [REDACTED] of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this document.

Pursuant to the engagement letter entered into between our Company and each of the Joint Sponsors, we have agreed to pay each of the Joint Sponsors a fee of US\$800,000 to act as the sponsors of our Company in connection with the [REDACTED] on the Stock Exchange.

C. Compliance Advisor

Our Company has appointed Anglo Chinese Finance Corporation, Limited as the compliance advisor in compliance with Rule 3A.19 of the Listing Rules.

D. Preliminary Expenses

We have not incurred any preliminary expense.

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E. Promoters

Information of our promoters as of the time of our Company’s conversion is as follows:

No.	Name
1.	Shenergy Group
2.	Shanghai Tobacco (Group) Corporation (上海煙草（集團）公司)
3.	Wenhui-Xinmin United Press Group (文匯新民聯合報業集團)
4.	Shanghai Maosheng Enterprise Development (Group) Co., Ltd. (上海茂盛企業發展（集團）有限公司)
5.	Shanghai Jiushi Corporation (上海久事公司)
6.	Shanghai Post Bureau (上海市郵政局)
7.	Shanghai Electric (Group) Corporation (上海電氣（集團）總公司)
8.	Hunan Computer Co., Ltd (湖南計算機股份有限公司)
9.	Shanghai Jinqiao Export Processing Zone Development Co., Ltd. (上海市金橋出口加工區開發股份有限公司)
10.	Shanghai Construction Co., Ltd. (上海建工股份有限公司)
11.	Shanghai Educational Development Co., Ltd (上海市教育發展有限公司)
12.	Shanghai Greenland (Group) Co., Ltd. (上海綠地（集團）有限公司)
13.	Shanghai Gaoyuan Property (Group) Co., Ltd. (上海高遠置業（集團）有限公司)
14.	Shanghai Minhang and Hongqiao Development Corp. (上海市閔行虹橋開發公司)
15.	Shanghai Taiyu Group Co., Ltd. (上海泰裕集團有限公司)
16.	Shanghai Transportation Investment (Group) Co., Ltd. (上海交通投資（集團）有限公司)
17.	Weida Hi-Tech Holding Co., Ltd. (威達高科技控股有限公司)
18.	Shanghai Join Buy Co., Ltd (上海九百股份有限公司)
19.	Shanghai International Trade & Investment Developing Co., Ltd. (上海市外經貿投資開發公司)
20.	Shanghai No.1 Department Store Co., Ltd. (上海市第一百貨商店股份有限公司)

Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor is any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

F. Financial Advisor

Orient Capital (Hong Kong) Limited has been appointed by us as our financial advisor in respect of the [REDACTED]. The appointment of Orient Capital (Hong Kong) Limited was not made pursuant to the requirements of the Listing Rules, and is separate and distinct from the appointment of the Joint Sponsors (which is required to be made by us pursuant to the Listing Rules). The Joint Sponsors are responsible for fulfilling their duties as sponsors to our application for [REDACTED] on the Hong Kong Stock Exchange, and the Joint Sponsors have not relied on any work performed by Orient Capital (Hong Kong) Limited in fulfilling those duties. Orient Capital (Hong Kong) Limited’s role as our financial advisor in respect of the [REDACTED] is different from that of the Joint Sponsors in that it, among other things, focuses on providing general corporate finance advice to us on matters

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relating to the [REDACTED] and the [REDACTED]. Orient Capital (Hong Kong) Limited is a wholly-owned subsidiary of our Company.

G. Qualification of Experts

The qualifications of the experts, as defined under the Hong Kong Listing Rules, who have given opinions in this document, are as follows:

Name	Qualification
Citigroup Global Market Asia Limited	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO
Goldman Sachs (Asia) L.L.C.	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), and type 9 (asset management) regulated activities under the SFO
Nomura International (Hong Kong) Limited	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte	Certified Public Accountants
Grandall	PRC legal advisors

H. Consents of Experts

Each of the experts named in paragraph G of this Appendix has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

As of the Latest Practicable Date, Citigroup Global Markets Asia Limited held 33.33% of the equity interest of Citi Orient. Save as disclosed in the document, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

I. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer is effected on the H Share register of members of our Company, including in circumstances where such transaction is effect on the Hong Kong Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is HK\$2.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, see “Appendix III—Taxation and Foreign Exchange.”

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J. Restriction on Share Repurchases

For details of the restrictions on share repurchases by our Company, please refer to “Appendix V—Summary of Articles of Association” to this document.

K. Binding Effect

This document shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

L. Related Party Transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this document as mentioned in “Appendix I—Accountant’s Report—54. Related Party Relationships and Transactions.”

M. Miscellaneous

Save as disclosed in this document:

- (a) within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued, or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share of our Company or any of our subsidiaries; and
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debentures of our Company;
- (b) there are no founder, management or deferred shares or any debentures in our Company or any of our subsidiaries;
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) there is no arrangement under which future dividends are waived or agreed to be waived;
- (f) save for our A Shares which are listed on the Shanghai Stock Exchange and the H Shares to be issued in connection with the [REDACTED], none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

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- (g) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures;
- (h) all necessary arrangements have been made to enable the H shares to be admitted into CCASS for clearing and settlement; and
- (i) our Directors confirm that there has been no material adverse change in our financial or trading position since December 31, 2015 (being the date to which our Group’s latest audited consolidated financial statements were prepared).

N. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VII

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **[REDACTED]**;
- (b) copies of material contracts referred to in the section headed “2. Further Information About Our Business—A. Summary of Our Material Contracts” in Appendix VI to this document;
- (c) the written consents referred to in section headed “5. Other information—H. Consents of Experts” in Appendix VI to this document; and
- (d) a statement of adjustment made by Deloitte in arriving at the figures set out in the accountants’ report of the Group set out in Appendix I to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Davis Polk & Wardwell at 18/F, The Hong Kong Club Building, 3A Chater Road, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) Articles of Association;
- (b) the Accountants’ Report from Deloitte, the text of which is set out in Appendix I to this document;
- (c) the consolidated audited financial statements of our Group for the three years ended December 31, 2013, 2014 and 2015;
- (d) **[REDACTED]**;
- (e) the material contracts referred to in the section headed “2. Further Information About Our Business—A. Summary of Our Material Contracts” in Appendix VI to this document;
- (f) the written consents referred to in the section headed “5. Other Information—H. Consents of Experts” in Appendix VI to this document;
- (g) the contracts referred to in the section headed “3. Further Information About Our Directors and Supervisors—A. Particulars of Directors’ and Supervisors’ Contracts” in Appendix VI to this document;
- (h) the legal opinions issued by Grandall, our legal advisors as to PRC law in respect of our general matters and property interests of the Group;
- (i) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations; and
- (j) the SSE Listing Rules, together with an unofficial English translation.