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If you have sold or transferred all your shares in 東方證券股份有限公司, you should at once hand this circular together with the accompanying form of proxy and reply slip to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).



(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))

(Stock Code: 03958)

- (1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES**
- (2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY SUBSTANTIAL SHAREHOLDER**
- (3) PROPOSED SUBSCRIPTION OF A SHARES BY EXISTING SHAREHOLDERS**
- (4) PROPOSED GENERAL MANDATE TO ISSUE ONSHORE DEBT FINANCING INSTRUMENTS AND**
- (5) NOTICES OF EXTRAORDINARY GENERAL MEETING AND H SHARES CLASS MEETING**

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders



A notice convening the Extraordinary General Meeting of the Company to be held at Jing Song Hall, 4/F, Pine City Hotel, No. 777 Zhaojiabang Road, Shanghai, the PRC on Friday, April 14, 2017 at 2:00 p.m. is set out on pages EGM-1 to EGM-4 of this circular. A notice convening the H Shares Class Meeting to be held at Jing Song Hall, 4/F, Pine City Hotel, No. 777 Zhaojiabang Road, Shanghai, the PRC on Friday, April 14, 2017 immediately following the conclusion of the EGM and the A Shares Class Meeting or any adjournment thereof, the notice is set out on pages HCM-1 to HCM-4 of this circular.

The “Letter from the Board” set out on pages 5 to 41 of this circular. The “Letter from the Independent Board Committee to the Independent Shareholders” set out on page 42 of this circular. The “Letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders” set out on pages 43 to 54 of this circular.

The reply slip and the form of proxy for the EGM and the H Shares Class Meeting have been distributed on Tuesday, February 28, 2017 and have also been published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.dfzq.com.cn). If you are not able to attend the EGM and/or the H Shares Class Meeting, please complete and return the form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM and/or the H Shares Class Meeting, and deposit it together with the notarized power of attorney or other document of authorization with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM and/or the H Shares Class Meeting should you so desire.

Shareholders intending to attend the EGM and/or the H Shares Class Meeting in person or by their proxies should complete and return the reply slip for attending the EGM and/or the H Shares Class Meeting to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares) on or before Saturday, March 25, 2017.

March 30, 2017

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“A Share(s)”	the domestic share(s) in the ordinary share capital of the Company with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“A Shareholder(s)”	holder(s) of A Share(s)
“A Shares Class Meeting”	the class meeting of the A Shareholders
“Announcement”	the announcement of the Company dated February 28, 2017 in relation to, among other things, (i) the Proposed Non-public Issuance of A Shares, (ii) connected transaction – proposed subscription of A Shares by substantial shareholder, and (iii) the proposed subscription of A Shares by existing shareholders
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Average Trading Price”	the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date (exclusive of the Pricing Benchmark Date), which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date
“Benchmark Price”	90% of the Average Trading Price
“Board”	the board of directors of the Company
“Class Meetings”	the A Shares Class Meeting and the H Shares Class Meeting
“Company”	東方證券股份有限公司, a joint stock limited company established in the PRC, whose 1,027,080,000 H shares are listed on the Hong Kong Stock Exchange (stock code: 3958) and 5,188,372,011 A shares are listed on the Shanghai Stock Exchange (stock code: 600958), respectively
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	the China Securities Regulatory Commission

DEFINITIONS

“Debt Financing General Mandate”	the proposed general mandate to issue onshore debt financing instruments of the Company, details of which are set out in this circular
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, (i) the Proposed Non-public Issuance of A Shares, (ii) the Shenergy Subscription, (iii) the Haiyan Subscription, (iv) the SUMG Subscription and (v) the Debt Financing General Mandate
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shareholder(s)”	holder(s) of H Share(s)
“H Shares Class Meeting”	the class meeting of the H Shareholders
“Haiyan Subscription”	the proposed subscription of A Shares by Shanghai Haiyan Investment to the Haiyan Subscription Agreement
“Haiyan Subscription Agreement”	the subscription agreement dated February 28, 2017 entered into between the Company and Shanghai Haiyan Investment, pursuant to which Shanghai Haiyan Investment has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not more than 120 million A Shares (for an amount of not more than RMB1,800 million) under the Proposed Non-public Issuance of A Shares (replacing the subscription agreement entered into between the Company and Shanghai Haiyan Investment on the same subjects on February 13, 2017)
“HK\$”	the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising Mr. Li Zhiqiang, Mr. Xu Guoxiang, Mr. Tao Xiuming, Mr. Wei Anning, Mr. Pan Fei and Mr. Xu Zhiming being all the independent Directors, which is formed to advise the independent shareholders on the Shenergy Subscription in accordance with the Listing Rules
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the Shenergy Subscription
“Independent Shareholders”	Shareholders other than (i) Shenergy Group and its associate; (ii) Shanghai Haiyan Investment and its associate; and (iii) SUMG and its associate
“Issue Date”	the proposed date on which the A Shares are issued under the Proposed Non-public Issuance of A Shares
“Latest Practicable Date”	March 23, 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China excluding, and for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pricing Benchmark Date”	the first day of the offering period of the A Shares under the Proposed Non-public Issuance of A Shares
“Proposed Non-public Issuance of A Shares”	the proposed non-public issuance of A Shares not more than 800,000,000 (including 800,000,000) A Shares by the Company to not more than 10 (including 10) specific target subscribers, including Shenergy Group, Shanghai Haiyan Investment and SUMG
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Shanghai Haiyan Investment”	Shanghai Haiyan Investment Management Company Limited, a PRC state-owned enterprise and a Shareholder of the Company
“Shanghai Stock Exchange”	the Shanghai Stock Exchange
“Shareholder(s)”	holder(s) of Company’s Share(s)
“Shenergy Group”	Shenergy (Group) Company Limited, a PRC state-owned enterprise and the substantial shareholder of the Company
“Shenergy Subscription”	the proposed subscription of A Shares by Shenergy Group to the Shenergy Subscription Agreement
“Shenergy Subscription Agreement”	the subscription agreement dated February 28, 2017 entered into between the Company and Shenergy Group, pursuant to which Shenergy Group has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not less than 200 million and not more than 230 million A Shares under the Proposed Non-public Issuance of A Shares (replacing the subscription agreement entered into between the Company and Shenergy Group on the same subjects on February 13, 2017)
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“SUMG”	Shanghai United Media Group, a PRC state-owned enterprise and a Shareholder of the Company
“SUMG Subscription”	the proposed subscription of A Shares by SUMG pursuant to the SUMG Subscription Agreement
“SUMG Subscription Agreement”	the subscription agreement dated February 28, 2017 entered into between the Company and SUMG, pursuant to which SUMG has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not more than 50 million A Shares (for an amount of not more than RMB750 million) under the Proposed Non-public Issuance of A Shares (replacing the subscription agreement entered into between the Company and Shenergy Group on the same subjects on February 13, 2017)
“trading day(s)”	a day on which the Shanghai Stock Exchange is open for dealing or trading in securities
“%”	per cent

LETTER FROM THE BOARD



(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))

(Stock Code: 03958)

Executive Directors:

Mr. PAN Xinjun (*Chairman*)
Mr. JIN Wenzhong (*President*)

Non-executive Directors:

Mr. WU Jianxiong (*Vice chairman*)
Mr. ZHANG Qian
Mr. WU Junhao
Mr. CHEN Bin
Mr. LI Xiang
Mr. XU Jianguo
Ms. HUANG Laifang
Mr. ZHOU Yao

Registered office:

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

Independent Non-executive Directors:

Mr. LI Zhiqiang
Mr. XU Guoxiang
Mr. TAO Xiuming
Mr. WEI Anning
Mr. PAN Fei
Mr. XU Zhiming

March 30, 2017

To the Shareholders

- (1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES**
- (2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY SUBSTANTIAL SHAREHOLDER**
- (3) PROPOSED SUBSCRIPTION OF A SHARES BY EXISTING SHAREHOLDERS**
- (4) PROPOSED GENERAL MANDATE TO ISSUE ONSHORE DEBT FINANCING INSTRUMENTS AND**
- (5) NOTICES OF EXTRAORDINARY GENERAL MEETING AND H SHARES CLASS MEETING**

Dear Sir or Madam,

INTRODUCTION

The purpose of this circular is to provide you, as holders of H Shares, with the notice of the EGM (set out on pages EGM-1 to EGM-4 of this circular) and the notice of H Shares Class Meeting (set out on pages HCM-1 to HCM-4 of this circular) and provide you with information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions or abstain from voting at the EGM and the H Shares Class Meeting.

LETTER FROM THE BOARD

At the EGM, ordinary resolutions will be proposed to approve (1) the resolution in relation to the satisfaction of the criteria for non-public issuance of A shares by the Company; (2) the resolution in relation to the “Feasibility Report on the Use of Proceeds from the Proposed Non-public Issuance of A Shares”; (3) the resolution in relation to the utilisation of proceeds from previous fund raising; (4) the resolution in relation to the related-party’s transactions and connected transaction involved in the Proposed Non-public Issuance of A shares; (5) the resolution in relation to the execution of the subscription agreements with conditions precedent with specific subscribers; (6) the resolution in relation to the authorization by the EGM, the class meeting of A shareholders and H Shares Class Meeting to the board of directors to deal with relevant matters involved in the Proposed Non-public Issuance of A shares; (7) the resolution in relation to the dilution by the Proposed Non-public Issuance of A shares on current returns and the remedial measures; (8) the resolution in relation to the shareholders’ returns in the next three years (2017-2019); and (9) the proposal regarding the general mandate to issue onshore debt financing instruments of the Company. Special resolutions will be proposed to approve (1) resolution in relation to the proposed non-public issuance of A shares by the Company; and (2) resolution in relation to the “Proposal in respect of the Proposed Non-public Issuance of A Shares (Revised)”.

At the H Shares Class Meeting, special resolutions will be proposed to approve (1) resolution in relation to the proposed non-public issuance of A shares by the Company; (2) resolution in relation to the “Proposal in respect of the Proposed Non-public Issuance of A Shares (Revised)”; (3) resolution in relation to the execution of the subscription agreements with conditions precedent with specific subscribers; and (4) resolution in relation to the authorization by the EGM, the class meeting of A shareholders and H Shares Class Meeting to the board of directors to deal with relevant matters involved in the non-public issuance of A shares.

II. PROPOSED NON-PUBLIC ISSUANCE OF A SHARES

On February 28, 2017, the Board has approved the Proposed Non-public Issuance of A Shares, pursuant to which the Company will issue a maximum of 800 million A Shares (inclusive) to not more than 10 specific target subscribers, including Shenergy Group, Shanghai Haiyan Investment and SUMG, which is expected to raise a gross proceeds of up to RMB12 billion (inclusive of the issuance expenses).

The details of the Proposed Non-public Issuance of A Shares are set out below. The final issue plan shall be the one as approved by CSRC.

1. Details of the Proposed Non-public Issuance of A Shares

Method and time of issuance:	The Proposed Non-public Issuance of A Shares will be carried out by way of non-public issue to specific target subscribers. The Company will choose appropriate opportunity to issue shares to specific target subscribers within six months after obtaining the approval from CSRC.
Class and par value of shares to be issued:	A Shares with a par value of RMB1.00 each.

LETTER FROM THE BOARD

Pricing Benchmark Date, issue price and pricing principles:

The Pricing Benchmark Date of the Proposed Non-public Issuance of A Shares is the first day of the offering period¹ of the A Shares under the Proposed Non-public Issuance of A Shares.

The issue price shall not be lower than the Benchmark Price, being 90% of the Average Trading Price (being the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date (exclusive of the Pricing Benchmark Date), which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date), nor, in any event, shall be lower than the par value of the Company's shares².

The Benchmark Price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the Pricing Benchmark Date and the Issue Date.

Subject to the abovementioned Benchmark Price, the final issue price will be determined by the Board or other authorized persons, in accordance with the authorization granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (lead underwriter) after the Company has obtained approvals from CSRC for the Proposed Non-public Issuance of A Shares and in accordance with the Implementation Rules for the Non-public Issue of Shares by Listed Companies (Revised in 2017) (《上市公司非公开发售股票实施细则》(2017年修订)), having regard to the price offered by the target subscribers and based on principle with price in priority.

¹ The Company will determine the offering period of the Proposed Non-public Issuance of A Shares after obtaining the approval by the EGM and the Class Meetings on the Proposed Non-public Issuance of A Shares and within six months after obtaining CSRC's approval on the final issue plan, by considering the recent closing prices of the Company's A shares, the level of Shanghai composite index and other factors, after consultation with the sponsor (lead underwriter).

² When the Benchmark Price equals to the par value of the Company's shares, the Company will consider whether to continue the Proposed Non-public Issuance of A Shares after taking into account the actual conditions.

LETTER FROM THE BOARD

Shenergy Group, Shanghai Haiyan Investment and SUMG will not participate in the pricing exercise for the Proposed Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for the A Shares at the same subscription price as other target subscribers.

Target subscribers and subscription method:

The target subscribers for the Proposed Non-public Issuance of A Shares will be not more than 10 specific target subscribers (including Shenergy Group, Shanghai Haiyan Investment and SUMG). The target subscribers include securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies subscribing with their own funds, finance companies, asset management companies, qualified foreign institutional investors and other institutional or individual investors in compliance with the requirements of CSRC. Securities investment fund management companies, which subscribe for the A Shares with two or more of the funds managed by them, shall each be taken as one single subscriber. Trust investment companies may only subscribe for the A Shares with their own funds.

The final subscribers, other than Shenergy Group, Shanghai Haiyan Investment and SUMG, will be determined by the Board or other authorized persons, in accordance with the authorization granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (lead underwriter) after the Company has obtained approvals from CSRC for the Proposed Non-public Issuance of A Shares, having regard to the price offered by the target subscribers and based on principle with price in priority.

All the target subscribers will subscribe for the A Shares under the Proposed Non-public Issuance of A Shares in cash.

LETTER FROM THE BOARD

If any subscriber and parties acting in concert with it will hold 5% or more of the enlarged total issued share capital of the Company as a result of the Proposed Non-public Issuance of A Shares, such subscriber and parties acting in concert with it shall notify the Company in advance and report to CSRC for approval in advance in accordance with relevant rules.

Number of the A Shares to be issued: A maximum of 800 million A Shares (inclusive) will be issued under the Proposed Non-public Issuance of A Shares, which represents (assuming fully issued):

- (i) approximately 15.42% of the existing issued A Shares and approximately 12.87% of the existing total issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 13.36% of the enlarged issued A Shares and approximately 11.40% of the enlarged total issued share capital of the Company upon completion of the Proposed Non-public Issuance of A Shares,

among which, Shenergy Group intends to subscribe for not less than 200 million and not more than 230 million A Shares in cash, Shanghai Haiyan Investment intends to subscribe for not more than 120 million A Shares in cash (for an amount of not more than RMB1,800 million), and SUMG intends to subscribe for not more than 50 million A Shares in cash (for an amount of not more than RMB750 million). Each of Shenergy Group, Shanghai Haiyan Investment and SUMG will decide on the final number of shares to be subscribed based on their respective investment needs after taking into account their respective commercial discussion with the Company.

LETTER FROM THE BOARD

The number of A Shares to be issued will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the date of the Board resolutions in respect of the Proposed Non-public Issuance of A Shares and the Issue Date.

Subject to the above, the final number of A Shares to be issued will be determined by the Board or other authorized persons, in accordance with the authorization granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (lead underwriter), having regard to the actual subscription status.

Lock-up period:

Shenergy Group shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 48 months from the date of completion of the Proposed Non-public Issuance of A Shares.

Shanghai Haiyan Investment shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares, within 48 months if it holds 5% or more of the enlarged total issued share capital of the Company, or within 36 months if it holds less than 5% of the enlarged total issued share capital of the Company, from the date of completion of the Proposed Non-public Issuance of A Shares.

SUMG shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of completion of the Proposed Non-public Issuance of A Shares.

LETTER FROM THE BOARD

All other target subscribers shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares, within 12 months if it holds less than 5% of the enlarged total issued share capital of the Company, or within 48 months if it holds 5% or more of the enlarged total issued share capital of the Company, from the date of completion of the Proposed Non-public Issuance of A Shares.

Use of proceeds:

The gross proceeds to be raised from the Proposed Non-public Issuance of A Shares will be not more than RMB12 billion (inclusive of the issuance expenses). After deducting issuance expenses, the proceeds are intended to be fully used for replenishing capital base and working capital of the Company, so as to expand business scale and improve the competitiveness and risk prevention capacity. Details are as follows:

- (1) Supporting brokerage and securities financing business development
 - Further improving the securities financing service capacity
 - Promoting the transformation and development of the wealth management business of the Company
- (2) Investing in securities sales and trading business development
 - Continuing to develop the fixed income proprietary business
 - Investing greater resources in market neutral investment strategy
 - Further developing NEEQ market-making business
- (3) Improving investment management service capacity
 - Strengthening active management capacity of investment management business
 - Maintaining rapid growth of mutual fund management business
 - Expanding investment in direct investment and private equity business

LETTER FROM THE BOARD

- (4) Expanding investment in innovative business
 - Expanding investment in FICC, OTC market, internet finance, and internationalized business
 - Expanding investment in building internet platform, trading and information system
- (5) Promoting the group development strategy of the Company
- (6) Working capital and other general corporate purposes

For further details, please see the Feasibility Report on the Use of Proceeds from the Non-Public Issuance of A Shares of the Company set out in Annex II on pages II-1 to II-11.

If, after the approval by the EGM and the Class Meetings of the Proposed Non-public Issuance of A Shares, the Company is requested by CSRC to disclose more details about the use of proceeds in the final issue plan, or when the Company has more detailed plans on the use of proceeds after the Company receives the proceeds, the Company will publish an announcement on the Hong Kong Stock Exchange in a timely manner. If the intended uses of proceeds listed above needed to be further modified, the Board and its authorized persons shall make adjustment within the scope of the shareholders' authorization and make further announcement; any intended use of proceeds exceeding shareholders' authorization scope shall be proposed to the shareholders' general meeting for consideration and approval and submitted to the CSRC for approval.

Place of listing of the A Shares to be issued:

The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued under the Proposed Non-public Issuance of A Shares. The A Shares to be issued under the Proposed Non-public Issuance of A Shares can be traded on the Shanghai Stock Exchange upon the expiration of the lock-up period.

LETTER FROM THE BOARD

Distribution of profit:	Upon completion of the Proposed Non-public Issuance of A Shares, both existing and new Shareholders will be entitled to share the Company's cumulative undistributed profits retained prior to the Proposed Non-public Issuance of A Shares.
Validity period of the resolution:	The resolutions regarding the Proposed Non-public Issuance of A Shares shall be valid for 12 months from the date of the passing of such resolutions at the EGM, the A Shares Class Meeting and the H Shares Class Meeting.
Specific mandate to issue the A Shares:	The Company will issue the A Shares under the specific mandate to be sought from the independent Shareholders at the EGM and the Class Meetings.
Rights of the A Shares to be issued:	The A Shares to be issued under the Proposed Non-public Issuance of A Shares, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of the issuance of such A Shares.

LETTER FROM THE BOARD

2. EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

(1) *Effects of the Proposed Non-Public Issuance of A Shares on the Shareholding Structure of the Company*

As at the Latest Practicable Date, the total issued share capital of the Company is 6,215,452,011 shares, which comprises 5,188,372,011 A Shares and 1,027,080,000 H Shares.

The shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after completion of the Proposed Non-public Issuance of A Shares (assuming that (i) Shenergy Group subscribes for 230 million A Shares at the Benchmark Price, (ii) Shanghai Haiyan Investment subscribes for 120 million A Shares at the Benchmark Price, (iii) SUMG subscribes for 50 million A Shares at the Benchmark Price, (iv) the other target subscribers subscribe for 400 million A Shares at the Benchmark Price and (v) there is no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the A Shares pursuant to the Proposed Non-public Issuance of A Shares) is as set out below:

Name of Shareholder	Class of shares	Shareholding as the Latest Practicable Date		Shareholding immediately after completion of the Proposed Non-public Issuance of A Shares			
		<i>Approximate percentage of the issued A</i>	<i>Approximate percentage of the total issued share capital (%)</i>	<i>Approximate percentage of the issued A</i>	<i>Approximate percentage of the total issued share capital (%)</i>	<i>Number of shares</i>	<i>Share capital (%)</i>
Shenergy Group and its associates	A	1,537,522,422	29.63	24.74	1,767,522,422	29.52	25.19
Shanghai Haiyan Investment and its associates	A	286,271,333	5.52	4.61	406,271,333	6.78	5.79
SUMG and its associates	A	246,878,206	4.76	3.97	296,878,206	4.96	4.23
Public A Shareholders	A	3,117,700,050	60.09	50.16	3,517,700,050	58.74	50.14
Public H Shareholders	H	1,027,080,000	–	16.52	1,027,080,000	–	14.64
Total		6,215,452,011	100.00	100.00	7,015,452,011	100.00	100.00

LETTER FROM THE BOARD

(2) Fund Raising Activities in the Past Twelve Months

Save as disclosed in this circular and apart from the equity fund-raising activity mentioned below, the Company has not conducted any fund raising activity involving issue of equity securities during the 12 months immediately before the Latest Practicable Date.

Date of initial announcement	Equity fund-raising activity	Amount of net proceeds	Intended use of net proceeds ⁽²⁾	Actual use of net proceeds ⁽²⁾
July 7, 2016	The H Shares were listed and began trading on the Hong Kong Stock Exchange on July 8, 2016 and the Company partially exercised the over-allotment option on August 3, 2016. A total number of 1,027,080,000 H Shares were issued at the issue price of HK\$8.15 per H Share.	Approximately HK\$7,417.1334 million (equivalent to approximately RMB6,386.8843 million ⁽¹⁾)	<p>(1) Approximately 35% (equivalent to approximately RMB2,291.6495 million) for further developing the brokerage and securities financing business of the Company;</p> <p>(2) Approximately 30% (equivalent to approximately RMB1,953.5377 million) for developing the overseas business of the Company;</p> <p>(3) Approximately 15% (equivalent to approximately RMB982.3679 million) for expanding the investment management business of the Company;</p> <p>(4) Approximately 10% (equivalent to approximately RMB654.9120 million) for developing the securities sales and trading business of the Company;</p> <p>(5) Approximately 5% (equivalent to approximately RMB359.0980 million) for capital expenditures to improve IT systems and expand capital-light branches network;</p> <p>(6) Approximately 5% (equivalent to approximately RMB359.0980 million) for working capital and other general corporate purpose.</p>	<p>(1) Approximately RMB2,291.6495 million has been fully utilized for the brokerage and securities financing business;</p> <p>(2) As to approximately RMB947.1000 million has been utilized for the overseas business, unutilized as to approximately RMB1,006.4377 million;</p> <p>(3) Approximately RMB982.3679 million has been fully utilized for the investment management business;</p> <p>(4) Approximately RMB654.9120 million has been fully utilized for the securities sales and trading business;</p> <p>(5) Approximately RMB359.0980 million has not been utilized;</p> <p>(6) Approximately RMB359.0980 million has not been utilized.</p>

LETTER FROM THE BOARD

Notes:

- (1) Translation of the amounts is made at the exchange rate on the date when the proceeds arrived at the Company's account.
- (2) Translation of the amounts for the proceeds already utilized is made at the exchange rate at the end of the month when the proceeds were used. Translation of the amounts for the proceeds not been utilized is made at the exchange rate at December 31, 2016.

Unlike the companies engaging in non-financial businesses, the securities industry is highly correlated with capital scale which, to a large extent, determines the overall competitiveness of a company. The Company's total assets ranked the 10th and its total net assets and total net capital ranked the 11th among the PRC securities companies as at December 31, 2015. There is still a significant gap between the Company's current assets scale and capital levels and those of the top securities companies, leading to certain constraints on the Company's future development as well as limitations to the improvement of Company's position in the securities industry.

Under the current net capital-oriented industry regulatory system in China, net capital is the key factor for the Company's future development. The Company needs to enhance its comprehensive strength by increasing its assets scale and net capital level, so as to provide a solid foundation and necessary financial support to the Company's development and improve the Company's position in the industry.

In addition, domestic regulatory authorities also support and encourage securities companies to supplement the capital, improve the liquidity and enhance the risk prevention capability. In December 2016, the Securities Association of China issued new Guidelines on the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》), putting forward higher requirement for liquidity risk management of securities companies. In September 2014, CSRC issued the Circular on Encouraging Securities Companies to Replenish Capital Base (《關於鼓勵證券公司進一步補充資本的通知》), which requires securities companies to pay attention to capital supplement, to ensure a business scale matching the capital capability, and to maintain an overall risk situation matching the risk tolerance. This circular also encourages securities companies conduct equity financing activities in the capital market, so as to supplement the capital, improve the liquidity and enhance the risk prevention capability.

Based on the Company's current status of business development and its business plans in 2017, the Company has made a rough estimation¹ for its expected funding needs for the next 12 months. The total assets of the Company is expected to increase by approximately RMB18.8 billion over the next 12 months. Taking into account the funds provided through the Company's net profit in 2017 and funds expected to be raised by way of debt financing, the Company still needs approximately RMB12.0 billion in the next 12 months, which is expected to be supplemented through the Proposed Non-public Issuance of A Shares.

¹ Such estimation is for reference only and does not constitute an undertaking by the Company on its future assets or profit. The Company gives no assurance that the estimation will prove to be correct. The estimation is subject to change corresponding to the business development of the Company and market conditions.

LETTER FROM THE BOARD

If the proceeds of the Proposed Non-public Issuance of A Shares cannot be in place as scheduled, or the actual proceeds turn out to be less than RMB12.0 billion, the Company will adjust the development pace and scale of its business lines, and consider financing by private placement of debts or issuance of corporate bonds, so as to ensure that the Company's business scale matches its capital strength, which is the basis for a sound operation and a virtuous development of the Company. Therefore, based on the Company's current liabilities and its future funds requirements, the Board proposes to the shareholders to consider and approve a resolution regarding general mandate to issue onshore debt financing instruments, the details of which are set out under the section headed "Proposed General Mandate to Issue Onshore Debt Financing Instruments" in the Board Letter.

(3) Financing alternatives considered by the Company

The Company has considered various fund raising methods such as debt financing (including convertible bonds), rights issue, and non-public offering of A Shares and H Shares. After the relevant analysis and comparison, the Company considers it more appropriate to conduct non-public offering of A Shares at this stage due to the following reasons:

- (1) According to relevant PRC regulations, the remaining quota for issuing bonds (including convertible bonds) = the most recent audited net assets* 40% – the outstanding balance of the issued bonds; currently, the Company's remaining quota for issuing bonds is relatively low, whose proceeds may not be able to fulfill Company's future fund needs. Bond issuance would also increase the gearing ratio of the Company, increase the financing cost of the Company by way of interest payment, and increase the repayment liabilities of the Company.
- (2) The rights issue is targeted at the Company's existing shareholders and shall be implemented to the holders of A Shares and H Shares simultaneously at the same price. Given the significant premium of the price of A Shares over the price of H Shares (for example, on 22 February 2017, the closing price of A Shares was RMB15.46 per share, and the closing price of H Shares was HKD8.07 per share), it is not practical to determine a price suitable for both classes of Shares, thus it is not reasonable for the Company to conduct rights issue.
- (3) As there is a significant premium of the price of A Shares over the price of H Shares, if the Company were to conduct a fund raising exercise by issuance of new H Shares with a proceed of RMB12.0 billion, assuming that an equivalent pricing basis is adopted to determine the benchmark price for the H Share issuance (that is, being not lower than 90% of the average trading price of the H Shares during the 20 trading days immediately preceding the Pricing Benchmark Date), the number of H Shares to be issued will be substantially more than that required under the Proposed Non-public Issuance of A Shares, which will lead to greater dilution on the shareholding of the existing shareholders.

LETTER FROM THE BOARD

3. Proposal in relation to the satisfaction of the criteria for non-public issuance of A Shares

Pursuant to the Company Law of the PRC, the Securities Law of the PRC, the “Measures for Administration of the Issuance of Securities by Listed Companies” and the Implementation Rules for the Non-public Issuance of Shares by Listed Companies, the Board, following self-examination and verification of the actual situation and relevant matters of the Company, considers that the Company satisfies all the criteria for non-public issuance of A Shares and agrees to apply to the CSRC for the Proposed Non-public Issuance of A Shares.

The proposal in relation to the satisfaction of the criteria for non-public issuance of A Shares will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the EGM.

4. Proposal in relation to the Proposed Non-public Issuance of A Shares

Each of the following 10 resolutions in the proposal in relation to the Proposed Non-public Issuance of A Shares will be submitted, by way of special resolutions, for the Independent Shareholders’ consideration and approval at the EGM, the A Shares Class Meeting and the H Shares Class Meeting.

- (1) issue method;
- (2) class and par value of shares to be issued;
- (3) issue price and pricing principles;
- (4) target subscribers and the methods for subscription;
- (5) number of shares to be issued;
- (6) lock-up period for the proposed issuance;
- (7) amount and use of proceeds;
- (8) place of listing of the shares to be issued;
- (9) treatment of the undistributed profit retained prior to the proposed issuance; and
- (10) validity period of resolution.

LETTER FROM THE BOARD

5. Proposal in relation to the “Proposal in respect of the Proposed Non-public Issuance of A Shares (Revised)”

The “Proposal on the Non-public Issuance of A Shares for 2017 (Revised)”, which was prepared in the Chinese language, is set out in Annex I to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The resolution in relation to the “Proposal in respect of the Proposed Non-public Issuance of A Shares (Revised)” will be submitted, by way of special resolution, for the Independent Shareholders’ consideration and approval at the EGM, the A Shares Class Meeting and the H Shares Class Meeting.

6. Proposal in relation to the “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares”

The “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares”, which was prepared in the Chinese language, is set out in Annex II to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “Feasibility Report on the Use of Proceeds from the Non-public Issuance of A Shares” will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the EGM.

7. Proposal in relation to the utilisation of proceeds from previous fund raising

The “Special Report on the Use of Previous Proceeds”, which was prepared in the Chinese language, is set out in Appendix III to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the utilisation of proceeds from previous fund raising will be submitted, by way of ordinary resolution, for the Shareholders’ consideration and approval at the EGM.

LETTER FROM THE BOARD

8. Resolution in relation to the Authorization by the EGM and the Class Meetings to the Board to handle relevant Matters in connection with the Proposed Non-Public Issuance of A Shares

Pursuant to the Measures for the Administration and the Detailed Implementing of the CSRC and the other requirements of the Proposed Non-public Issuance of A Shares, in order to ensure successful implementation of the share issuance and the relevant follow-up matters and to enhance decision-making efficiency and catch up market timing, the board proposes to seek approval from the Shareholders at the EGM and the Class Meetings to authorize the Board to handle matters in connection with the Proposed Non-Public Issuance of A Shares including but not limited to:

- (1) subject to the laws and regulations, requirements issued by securities regulatory authorities and the resolutions of the EGM and the Class Meetings, making and implementing the specific plans of the Proposed Non-Public Issuance of A Shares, including but not limited to, determining timing of issuance, number of A Shares to be issued, issue price, selecting target subscribers, proportion for subscription and other matters concerning to the issue plans;
- (2) dealing with the filing in relation to the Proposed Non-Public Issuance of A Shares, including but not limited to, formulating, revising, executing, reporting, submitting supplementary materials, implementing and publishing relevant filing documents and other legal documents in relation to the Proposed Non-Public Issuance of A Shares according to the requirements of securities regulatory authorities; responding to the comments of relevant securities regulatory authorities including the CSRC and the Hong Kong Stock Exchange;
- (3) determining to engage intermediaries such as the sponsor, law firm, accounting firm and the financial advisor, formulating, revising and executing all relevant agreements and documents in connection with the Proposed Non-Public Issuance of A Shares, including but not limited to, underwriting agreements, sponsorship agreements and intermediaries' engagement letters, etc.;
- (4) formulating, revising, supplementing, executing, submitting, filing and implementing all the agreements and other material documents in the process of investment projects with the proceeds, and handling all the relevant matters involved therein; subject to the requirements of relevant authorities and the actual market situation, appointing or setting up a designated account for the Proposed Non-Public Issuance of A Shares which shall be used for depositing the proceeds; making adjustments to the investment projects and use of the proceeds within the scope approved by the EGM and the Class Meetings;

LETTER FROM THE BOARD

- (5) subject to the requirements of the CSRC and other securities regulatory authorities as well as within the scope of the Proposed Non-public Issuance of A Shares approved by the EGM and the Class Meetings, executing subscription agreements, supplementary agreements or other relevant legal documents with the subscribers of the Non-Public Issuance of A Shares when needed;
- (6) in accordance with the actual status of the Proposed Non-Public Issuance of A Shares, increasing the registered capital of the Company, amending the Articles of Association, handling relevant approval and filing with relevant governmental and regulatory authorities, dealing with the industrial and commercial registration changes;
- (7) handling registration, lock-up and listing of the A Shares and other relevant matters with the Shanghai Stock Exchange and the Shanghai branch of China Securities Depository and Clearing Co., Ltd. upon completion of the Proposed Non-Public Issuance of A Shares;
- (8) where there is any change of policies or regulations of non-public issuance of A shares or if there is any change to the market conditions, adjusting the plans of the Proposed Non-Public Issuance of A Shares and the use of proceeds and continuing to deal with matters relating to the Proposed Non-Public Issuance of A Shares and use of proceeds according to relevant policies or regulations, the requirements of regulatory authorities, market conditions and the Company's actual operating results, other than those matters requiring revote at the EGM and the Class Meetings under the relevant laws, regulations or the Articles of Association;
- (9) subject to the CSRC's requirements of shareholders qualification of securities company, examining and screening the qualification of the subscribers of the Proposed Non-Public Issuance of A Shares; and
- (10) handling all other matters relevant to the Proposed Non-public Issuance of A Shares.

The authorization under item 1 to item 10 above is allowed to be delegated to the chairman of the Board, the president of the Company or the secretary of the Board, which shall handle, separately or collectively, with full authority.

- (11) Matters in relation to the transfer by the Board of authorization in connection with the Proposed Non-public Issuance of A Shares

To enhance the efficiency of decision-making, simplify internal approval procedures and grasping market timing, upon the approval of "Resolution in relation to the authorization of relevant matters involved in the non-public issuance of A shares" by the EGM and the Class Meetings which is set out above, the Board shall transfer the authorization to the chairman of the Board, the president of the Company or the secretary of the Board, which shall handle, separately or collectively, with full authority.

LETTER FROM THE BOARD

The aforementioned authorization shall be valid for 12 months from the date of the approval by the Shareholders, however, if the Company obtains CSRC's approval documents of the transaction plans within the validity, the validity of authorization shall automatically extend to the completion day of the transaction;

The proposal in relation to the authorization by the EGM and the Class Meetings to the Board to deal with relevant matters involved in the Proposed Non-public Issuance of A Shares, will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM, and by way of special resolution for the Shareholders' consideration and approval at the A Shares Class Meeting and the H Shares Class Meeting.

9. Proposal in relation to the “The Dilution of Immediate Returns Due to the Non-public Issuance of A Shares and the Remedial Measures”

Pursuant to the requirements set out in the “Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets” (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and the “Guidance Opinion on Matters Pertaining to Dilution of Return for the Current Period Resulting from Initial Offering and Refinancing or Material Asset Restructuring” (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), the Company has prepared the “The Dilution of Immediate Returns Due to the Non-public Issue of A Shares and the Remedial Measures”. In addition, the Shenergy Group, the Directors and the senior management of the Company has made the undertakings to guarantee the earnest implementation of remedial measures for the returns.

The “The Dilution of Immediate Returns Due to the Non-public Issuance of A Shares and the Remedial Measures”, which was prepared in the Chinese language, is set out in Appendix IV to this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “The Dilution of Immediate Returns Due to the Non-public Issuance of A Shares and the Remedial Measures”, will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

LETTER FROM THE BOARD

10. Proposed adoption of the Shareholders' Return Plan for the Next Three Years (From 2017 To 2019)

Pursuant to Company Law of the PRC, the Notice Regarding Further Implementation of Cash Dividend Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and Listed Companies Regulatory Guidance No. 3 – Cash Dividends Distribution of Listed Companies (《上市公司監管指引第3號 – 上市公司現金分紅》), both issued by the CSRC, the Guideline on the Distribution of Cash Dividends by Listed Companies of the Shanghai Stock Exchange (《上海證券交易所上市公司現金分紅指引》) issued by the Shanghai Stock Exchange and the Articles of Association, the Board has formulated and proposes to adopt the Shareholders' Return Plan for the Next Three Years (From 2017 To 2019), which was prepared in the Chinese language.

The Shareholders' Return Plan for the Next Three Years (From 2017 To 2019), which was prepared in the Chinese language, is set out in Appendix V of this circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the Shareholders' Return Plan for the Next Three Years (From 2017 To 2019) will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM.

III. CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY CHINA SHIPPING

As part of the Proposed Non-public Issuance of A Shares, on February 28, 2017, the Company and Shenergy Group entered into the Shenergy Subscription Agreement, pursuant to which Shenergy Group has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not less than 200 million and not more than 230 million A Shares under the Proposed Non-public Issuance of A Shares.

LETTER FROM THE BOARD

The Major terms of the Shenergy Subscription Agreement are set out below.

1. Major terms of the Shenergy Subscription Agreement

Date: February 28, 2017

Parties: (1) The Company, as the issuer; and
(2) Shenergy Group, as the subscriber.

Subscription price and pricing principles: The subscription price shall not be lower than the Benchmark Price, nor, in any event, shall be lower than the par value of the Company's shares.

The Benchmark Price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the Pricing Benchmark Date and the Issue Date.

Subject to the abovementioned Benchmark Price, the final subscription price will be determined by the Board or other authorized persons, in accordance with the authorization granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (lead underwriter) after the Company has obtained approvals from CSRC for the Proposed Non-public Issuance of A Shares and in accordance with the Implementation Rules for the Non-public Issue of Shares by Listed Companies (Revised in 2017) (《上市公司非公开发售股票实施细则》(2017年修订)), having regard to the price offered by the target subscribers and based on principles such as price priority (i.e. the investor who offers higher price has the priority to obtain the stock allocation over the investor who offers lower price in the process of market allotment).

Shenergy Group will not participate in the pricing exercise for the Proposed Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for the A Shares at the same subscription price as other target subscribers.

LETTER FROM THE BOARD

Number of the A Shares to be issued: Pursuant to the Shenergy Subscription Agreement, Shenergy Group intends to subscribe for not less than 200 million and not more than 230 million A Shares in cash. Shenergy Group will decide on the final number of shares to be subscribed based on its investment needs after taking into account its commercial discussion with the Company.

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares and the number of A Shares to be subscribed by Shenergy Group will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the date of the Board resolutions in respect of the Proposed Non-public Issuance of A Shares and the Issue Date.

Time and method of subscription price payment: Shenergy Group agrees to pay the total subscription price in one lump sum in cash into the specific account opened by the sponsor for the Proposed Non-public Issuance of A Shares in accordance with the payment notice issued from the Company and the sponsor upon the Shenergy Subscription Agreement taking effect. After capital verification and deducting relevant expenses, such subscription price will be transferred into the specific proceeds account of the Company in respect of the Proposed Non-public Issuance of A Shares.

Lock-up period: Shenergy Group shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 48 months from the date of completion of the Proposed Non-public Issuance of A Shares.

LETTER FROM THE BOARD

Conditions precedent and effective date:

The Shenergy Subscription Agreement is concluded upon execution by both parties and takes effect upon the satisfaction of all conditions below:

- (1) the respective approvals by the Board and Shareholders' meetings (including the EGM, the A Shares Class Meeting and the H Shares Class Meeting) of all matters relating to the Proposed Non-public Issuance of A Shares (including without limitation the approval by non-related/connected Shareholders of the Shenergy Subscription Agreement and the related-party/connected transaction contemplated thereunder);
- (2) the Department of Fund and Intermediary Supervision (證券基金機構監管部) of CSRC having no objection to the Proposed Non-public Issuance of A Shares and approving the change in registered capital and other matters involved in the Proposed Non-public Issuance of A Shares;
- (3) the approval by CSRC of the Proposed Non-public Issuance of A Shares; and
- (4) the date on which the last of the above conditions is satisfied shall be the effective date of the Shenergy Subscription Agreement.

2. Information on the parties to the Shenergy Subscription Agreement

The Company is principally engaged in securities sales and trading, investment management, brokerage and securities finance, investment banking and other businesses.

Shenergy Group is a limited liability company incorporated under the laws of the PRC and is principally engaged in the investment, development and management of electric power and energy infrastructure industry, the investment of natural gas resources, the investment of municipal gas pipe network, the investment and management of real estate and high-technology industry, the industrial investment, the assets management and the domestic trades (except for specific items).

LETTER FROM THE BOARD

3. Reasons for and benefits of entering into the Shenergy Subscription Agreement

The Board considers that the Proposed Non-public Issuance of A Shares is conducive for the Company to enhance its capital strength, relieve the net capital bottle-neck, optimize the business and profit structure of the Company, constantly fulfill the needs of regulatory requirements; improve the comprehensive competitiveness capacity, keep its position of a Class A securities company, realize the strategic goals of the Company; speed up expanding the innovative business, and increase the risk prevention capacity during the operation of the Company. The Shenergy Subscription is aimed to successfully complete the A Share refinancing. The subscription of the A Shares by Shenergy Group under the Proposed Non-public Issuance of A Shares demonstrates its positive expectation and support towards the Company's long-term development in the future, which is conducive for the Company to enlarge its capital scale and enhance its capital strength, further accelerate the adjustment to business revenue structure, and grasp strategic opportunities during increasingly intensive competition, which would guarantee the sound and sustainable development of the Company.

In light of the above, the Board (including the independent non-executive Directors) believes that the terms of the Shenergy Subscription Agreement are fair and reasonable and on normal commercial terms. Entering into the Shenergy Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

4. Proposal in relation to the Shenergy Subscription constituting a connected transaction under the Listing Rules

As at the Latest Practicable Date, Shenergy Group and its associates control or are entitled to exercise control over the voting rights in respect of 1,537,522,422 A Shares, representing approximately 24.74% of the total issued share capital of the Company. Accordingly, Shenergy Group is a substantial shareholder of the Company and therefore a connected person of the Company. The Shenergy Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wu Jianxiong, Mr. Zhang Qian and Mr. Wu Junhao, all being Directors, serve as the general manager, the vice general manager and the department manager of the finance management department, respectively, in Shenergy Group. Accordingly each of the aforementioned Directors has a material interest in the Proposed Non-public Issuance of A Shares and the Shenergy Subscription and have therefore abstained from voting on the relevant Board resolutions.

An independent board committee has been formed to advise the independent Shareholders in respect of the Shenergy Subscription. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders on the above.

LETTER FROM THE BOARD

The proposal (which includes the Shenergy Subscription Agreement and the transactions contemplated thereunder) in relation to the related-party's transactions and connected transaction involved in the Proposed Non-public Issuance of A Shares will be submitted, by way of ordinary resolution, for the Independent Shareholders' consideration and approval at the EGM.

5. Proposal in relation to the execution of the Shenergy Subscription Agreement

The proposal in relation to the execution of the subscription agreements with conditions precedent with specific subscribers will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM, and by way of special resolution, for the Shareholders' consideration and approval at the A Shares Class Meeting and the H Shares Class Meeting. Shenergy Group and its associates shall abstain from voting on the Shenergy Subscription Agreement at the EGM and the H Shares Class Meeting.

IV. PROPOSED SUBSCRIPTION OF A SHARES BY EXISTING SHAREHOLDERS

As part of the Proposed Non-public Issuance of A Shares, on February 28, 2017, the Company entered into the Haiyan Subscription Agreement with Shanghai Haiyan Investment and the SUMG Subscription Agreement with SUMG respectively, pursuant to which Shanghai Haiyan Investment has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not more than 120 million A Shares (for an amount of not more than RMB1,800 million) under the Proposed Non-public Issuance of A Shares, and SUMG has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not more than 50 million A Shares (for an amount of not more than RMB750 million) under the Proposed Non-public Issuance of A Shares.

LETTER FROM THE BOARD

1. Major terms of the Haiyan Subscription Agreement

Date: February 28, 2017

Parties: (1) The Company, as the issuer; and
(2) Shanghai Haiyan Investment, as the subscriber.

Subscription price and pricing principles: The subscription price shall not be lower than the Benchmark Price, nor, in any event, shall be lower than the par value of the Company's shares.

The Benchmark Price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the Pricing Benchmark Date and the Issue Date.

Subject to the abovementioned Benchmark Price, the final subscription price will be determined by the Board or other authorized persons, in accordance with the authorization granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (lead underwriter) after the Company has obtained approvals from CSRC for the Proposed Non-public Issuance of A Shares and in accordance with the Implementation Rules for the Non-public Issue of Shares by Listed Companies (Revised in 2017) (《上市公司非公开发行股票实施细则》(2017年修订)), having regard to the price offered by the target subscribers and based on principle with price in priority.

Shanghai Haiyan Investment will not participate in the pricing exercise for the Proposed Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for the A Shares at the same subscription price as other target subscribers.

LETTER FROM THE BOARD

Number of the A Shares to be issued: Pursuant to the Haiyan Subscription Agreement, Shanghai Haiyan Investment intends to subscribe for not more than 120 million A Shares in cash. Shanghai Haiyan Investment will decide on the final number of shares to be subscribed based on its investment needs after taking into account its commercial discussion with the Company.

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares and the number of A Shares to be subscribed by Shanghai Haiyan Investment will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the date of the Board resolutions in respect of the Proposed Non-public Issuance of A Shares and the Issue Date.

Time and method of subscription price payment: Subject to the abovementioned Benchmark Price and number of A Shares to be subscribed, the aggregate subscription price to be paid by Shanghai Haiyan Investment shall be not more than RMB1,800 million.

Shanghai Haiyan Investment agrees to pay the total subscription price in one lump sum in cash into the specific account opened by the sponsor for the Proposed Non-public Issuance of A Shares in accordance with the payment notice issued from the Company and the sponsor upon the Haiyan Subscription Agreement taking effect. After capital verification and deducting relevant expenses, such subscription price will be transferred into the specific proceeds account of the Company in respect of the Proposed Non-public Issuance of A Shares.

LETTER FROM THE BOARD

Lock-up period:

Shanghai Haiyan Investment shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares, within 48 months if it holds 5% or more of the enlarged total issued share capital of the Company, or within 36 months if it holds less than 5% of the enlarged total issued share capital of the Company, from the date of completion of the Proposed Non-public Issuance of A Shares.

Conditions precedent and effective date:

The Haiyan Subscription Agreement is concluded upon execution by both parties and takes effect upon the satisfaction of all conditions below:

- (1) the respective approvals by the Board and Shareholders' meetings (including the EGM, the A Shares Class Meeting and the H Shares Class Meeting) of all matters relating to the Proposed Non-public Issuance of A Shares (including without limitation the approval by non-related Shareholders of the Haiyan Subscription Agreement and the related-party transaction contemplated thereunder);
- (2) the Department of Fund and Intermediary Supervision (證券基金機構監管部) of CSRC having no objection to the Proposed Non-public Issuance of A Shares and approving the change in registered capital, Shanghai Haiyan Investment holding more than 5% of the share capital of the Company and other matters involved in the Proposed Non-public Issuance of A Shares;
- (3) the approval by CSRC of the Proposed Non-public Issuance of A Shares; and
- (4) the date on which the last of the above conditions is satisfied shall be the effective date of the Haiyan Subscription Agreement.

LETTER FROM THE BOARD

2. Major terms of the SUMG Subscription Agreement

Date: February 28, 2017

Parties: (1) The Company, as the issuer; and
(2) SUMG, as the subscriber.

Subscription price and pricing principles:

The subscription price shall not be lower than the Benchmark Price, nor, in any event, shall be lower than the par value of the Company's shares.

The Benchmark Price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the Pricing Benchmark Date and the Issue Date.

Subject to the abovementioned Benchmark Price, the final subscription price will be determined by the Board or other authorized persons, in accordance with the authorization granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (lead underwriter) after the Company has obtained approvals from CSRC for the Proposed Non-public Issuance of A Shares and in accordance with the Implementation Rules for the Non-public Issue of Shares by Listed Companies (Revised in 2017) (《上市公司非公开发行股票实施细则》(2017年修订)), having regard to the price offered by the target subscribers and based on principle with price in priority.

SUMG will not participate in the pricing exercise for the Proposed Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for the A Shares at the same subscription price as other target subscribers.

LETTER FROM THE BOARD

Number of the A Shares to be issued: Pursuant to the SUMG Subscription Agreement, SUMG intends to subscribe for not more than 50 million A Shares in cash. SUMG will decide on the final number of shares to be subscribed based on its investment needs after taking into account its commercial discussion with the Company.

The number of A Shares to be issued under the Proposed Non-public Issuance of A Shares and the number of A Shares to be subscribed by SUMG will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the date of the Board resolutions in respect of the Proposed Non-public Issuance of A Shares and the Issue Date.

Time and method of subscription price payment: Subject to the abovementioned Benchmark Price and number of A Shares to be subscribed, the aggregate subscription price to be paid by SUMG shall be not more than RMB750 million.

SUMG agrees to pay the total subscription price in one lump sum in cash into the specific account opened by the sponsor for the Proposed Non-public Issuance of A Shares in accordance with the payment notice issued from the Company and the sponsor upon the SUMG Subscription Agreement taking effect. After capital verification and deducting relevant expenses, such subscription price will be transferred into the specific proceeds account of the Company in respect of the Proposed Non-public Issuance of A Shares.

Lock-up period: SUMG shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of completion of the Proposed Non-public Issuance of A Shares.

LETTER FROM THE BOARD

Conditions precedent and effective date:

The SUMG Subscription Agreement is concluded upon execution by both parties and takes effect upon the satisfaction of all conditions below:

- (1) the respective approvals by the Board and Shareholders' meetings (including the EGM, the A Shares Class Meeting and the H Shares Class Meeting) of all matters relating to the Proposed Non-public Issuance of A Shares (including without limitation the approval by non-related Shareholders of the SUMG Subscription Agreement and the related-party transaction contemplated thereunder);
- (2) the Department of Fund and Intermediary Supervision (證券基金機構監管部) of CSRC having no objection to the Proposed Non-public Issuance of A Shares and approving the change in registered capital and other matters involved in the Proposed Non-public Issuance of A Shares;
- (3) the approval by CSRC of the Proposed Non-public Issuance of A Shares; and
- (4) the date on which the last of the above conditions is satisfied shall be the effective date of the SUMG Subscription Agreement.

3. Proposal in relation to the Haiyan Subscription and the SUMG Subscription constituting transactions with related parties under the relevant PRC laws and regulations

As at the Latest Practicable Date, Shanghai Haiyan Investment and its associates control or are entitled to exercise control over the voting rights in respect of 286,271,333 A Shares, representing approximately 4.61% of the total issued share capital of the Company, and SUMG and its associates control or are entitled to exercise control over the voting rights in respect of 246,878,206 A Shares, representing approximately 3.97% of the total issued share capital of the Company. Accordingly, neither Shanghai Haiyan Investment nor SUMG is a connected person of the Company under Chapter 14A of the Listing Rules. Neither the Haiyan Subscription nor the SUMG Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Pursuant to applicable PRC laws and regulations, Shanghai Haiyan Investment and SUMG are related party of the Company. Therefore, the Haiyan Subscription and the SUMG Subscription constitute related-party transactions and are subject to the approval of non-related Shareholders.

LETTER FROM THE BOARD

The proposal in relation to the related-party's transactions and connected transaction involved in the Proposed Non-public Issuance of A Shares (which includes the Haiyan Subscription and the SUMG Subscription) will be submitted, by way of ordinary resolution, for the Independent Shareholders' consideration and approval at the EGM.

4. Proposal in relation to the Haiyan Subscription Agreement and the SUMG Subscription Agreement

The proposal in relation to the execution of the subscription agreements with conditions precedent with specific subscribers will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the EGM, and by way of special resolution, for the Shareholders' consideration and approval at the A Shares Class Meeting and the H Shares Class Meeting. Shanghai Haiyan Investment and its associates shall abstain from considering and approving the Haiyan Subscription Agreement, and SUMG and its associates shall abstain from considering and approving the SUMG Subscription Agreement, at the EGM and the H Shares Class Meeting.

V. PROPOSED GENERAL MANDATE TO ISSUE ONSHORE DEBT FINANCING INSTRUMENTS

To satisfy the Company's needs for continuous operation and maintaining its liquidity, as well as to adjust debt structure and reduce financing cost, the Company intends to issue onshore Renminbi debt financing instruments on a one-off or multiple or multi-tranche issues basis. Based on the Company's current liabilities and its future actual funds requirements, the Board proposes to the Shareholders' general meeting of the Company to consider and approve a resolution regarding general mandate to issue onshore debt financing instruments, and the details are as follows:

1. Issuing size of debt financing instruments

The Company manages the debt financing instruments by setting caps. Commencing from the date on which this resolution is considered and approved by the Board, the total outstanding repayment amounts of the onshore debt financing instruments prescribed in this resolution shall not exceed 200% of the net assets of the Company (on an audited and non-consolidated basis) as at the end of the previous year (including the existing outstanding debt financing instruments), and shall be in compliance with the provisions under the relevant laws and regulations in respect of the caps for issue of onshore debt financing instruments as well as the requirements for various risk control indicators.

2. Type of debt financing instruments

Based on actual issuing conditions, the onshore debt financing instruments referred to in this resolution include without limitation to corporate bonds (including short-term corporate bonds of securities companies), short-term financial bills, subordinated bonds (including perpetual subordinated bonds), subordinated debts, income receipts and other onshore debt financing instruments approved by or filed with CSRC, the Securities Association of China, stock exchanges and other relevant authorities in accordance with relevant rules available to the Company to issue, excluding assets-backed securities, income right of margin financing as well as refinancing. The onshore debt financing instruments of the Company to be issued referred to in this resolution do not contain any terms for conversion into shares.

LETTER FROM THE BOARD

3. Maturity of debt financing instruments

Based on the minimum maturity required by the regulatory authorities, the term of the onshore debt financing instruments referred to in this resolution may include maturity, which shall not exceed 10 years (inclusive of 10 years), or may not include maturity, i.e. perpetual; type of each maturity may be a single type, or a hybrid type with multiple maturities. Specific maturity components and the size of each type of maturity are determined based on the relevant rules and the market conditions at the time of the issue.

4. Interest rate of debt financing instruments and the basis for its determination

The interest rate of the onshore debt financing instruments referred to in this resolution may be a type of fixed interest rate and/or a type of floating interest rate. The coupon rate of debt financing instruments and the basis for its determination are determined by the Company and the lead underwriter (or the sponsor, if any) after their negotiation based on the market conditions and the relevant administration rules in respect of the interest rate of the debt financing instruments.

5. Issuing method and target

The onshore debt financing instruments will be approved by or filed with CSRC and other relevant authorities according to the relevant rules, and will be issued on a one-off or multiple or multi-tranche issues basis through public offerings at the exchanges recognized by CSRC and other relevant authorities according to the laws, or through private placements to the qualified investors according to the relevant rules.

6. Use of proceeds

The proceeds will be used to replenish the working capital of the Company, satisfy the business operational requirements of the Company, as well as adjust the Company's debt structure.

7. Authorization

Subject to compliance of leverage ratio, risk control indicators, liquidity regulation indicators as well as the risk caps for various debt financing instruments with the rules of regulatory institutions, it is proposed to authorize the Board to handle, at any appropriate opportunity, all matters of the debt financing instruments issued within the validity of the resolution, and within the caps for the outstanding debt financial instruments, as well as based on the principle of maximizing the interests of the Company, including without limitation to:

- (1) formulating and implementing the detailed plan for each issue of onshore debt financing instruments in accordance with the applicable laws, regulations and relevant rules from regulatory authorities as well as resolutions passed at the general meeting of Company, and based on the actual conditions of the Company and the market, including without limitation to, specific issuing type, size, maturity, interest rate and the basis for its determination, issuing targets, guarantees arrangement, issuing price, issuing timing (including whether or not to issue on multiple issues basis or in tranches as well as issuing tranches, etc.), use of proceeds, whether or not and how to include any

LETTER FROM THE BOARD

repurchase terms and redemption terms, etc. (including interest rate increase option and investors repurchase option, etc.), rating arrangement, specific measures for application and subscription, detailed placing arrangement, specific guarantee measures for repayment, maturity and method for payment of principle and interests, listing of debt financing instruments, etc. and all matters relating to the issuing terms;

- (2) determining and engaging intermediary agency, and handling the matters relating to the reporting, approval, filing, registration and listing of each issue with the relevant regulatory authority, exchange and other institutions, including without limitation to authorizing, signing, implementing, amending and completing all necessary contracts, agreements and documents relating to the issue and listing of each onshore debt financing instrument (including without limitation to the prospectus, sponsor agreement, underwriting agreement, guarantee agreement, engagement agreement with intermediary agency, trustee management agreement, debt agency agreement, registration and custody agreement, listing agreement, various announcements and other legal documents, etc.) as well as disclosing the relevant information in accordance with the provisions including the relevant laws, regulations and the listing rules of the exchanges;
- (3) selecting and engaging trustee manager(s) and settlement manager(s) for the issue of the debt financing instruments of the Company, and signing the trustee management agreement(s), settlement management agreement(s) and (if applicable) formulating rules for meetings of the holders of the debt financing instruments;
- (4) in the event of any change in the policies of regulatory authorities, exchanges or other regulatory institutions on the issue and listing of the debt financing instruments or in the market conditions, except the matters subject to re-approval at the general meeting under the requirements of relevant laws, regulations and the Company's articles of association, adjusting accordingly the matters relating to the detailed plan of issue and listing of each onshore debt financing instrument based on the opinions from regulatory institutions;
- (5) handling other specific matters relating to the issue and listing of each debt financing instrument;
- (6) subject to approval of the above authorizations at the general meeting, proposing the Board to authorize its authorized persons to jointly or individually handle all matters relating to the issue of debt financing instruments on behalf of the Company pursuant to the resolutions passed at the general meeting and the authorizations granted by the Board.

Under the circumstances that the total outstanding repayment amounts of the onshore debt financing instruments prescribed in this resolution do not exceed 185% of the net assets of the Company (on an audited and non-consolidated basis) as at the end of the previous year (including the existing outstanding debt financing instruments), the Board delegates the aforementioned authorizations to the management of the Company.

LETTER FROM THE BOARD

8. Validity of resolution

The resolution passed at the general meeting on the issue of the onshore debt financing instruments of the Company shall be valid for a period of 36 months from the date on which such resolution is considered and approved at the general meeting.

Where the Board and/or its authorized persons have, during the validity of the authorization, decided the issue or partial issue of the onshore debt financing instruments of the Company, and provided that the Company has also, during the validity of the authorization, obtained the issuing approval or license from or completed filing or registration (if applicable) on the issue with regulatory authorities, the Company may, during the validity of such approval, license, filing or registration, complete the relevant issue or partial issue of the onshore debt financing instruments of the Company.

The Resolution on Mandate to Issue Onshore Debt Financing Instruments by the Company (the “**Previous Resolution**”) was considered and approved at the 2014 annual general meeting of the Company held on May 25, 2015, and the Resolution on Issue of Subordinated Bonds (Including Perpetual Subordinated Bonds) by the Company (the “**Subordinated Bonds Resolution**”) was considered and approved at the 2015 annual general meeting of the Company held on May 25, 2016. After this resolution takes effect, the Previous Resolution (including the appendices) and the Subordinated Bonds Resolution will no longer be implemented.

The Company will allocate its resources in a reasonable manner based on its annual assets and liabilities allocation plan, and at the same time promote the implementation of overall risk management, carry out total volume control of risk, constantly monitor liquidity risk indicators, conduct pressure test, and establish emergency plans in order to guarantee the safety of the Company’s liquidity, an orderly carrying out of each business, as well as good effect for capital use.

The above resolutions are subject to approval by the Shareholders by way of ordinary resolutions at the EGM.

VI. EGM AND CLASS MEETINGS

The EGM will be held at Jing Song Hall, 4/F, Pine City Hotel, No. 777 Zhaojiabang Road, Shanghai, the PRC on Friday, April 14, 2017 at 2:00 p.m., the notice which is set out on pages EGM-1 to EGM-4 of this circular. The H Shares Class Meeting will be held at Jing Song Hall, 4/F, Pine City Hotel, No. 777 Zhaojiabang Road, Shanghai, the PRC on Friday, April 14, 2017 immediately following the conclusion of the EGM and the A Shares Class Meeting or any adjournment thereof, the notice of which is set out on pages HCM-1 to HCM-4 of this circular.

The register of members of H Shares of the Company will be closed from Wednesday, March 15, 2017 to Friday, April 14, 2017 (both days inclusive), during which time no share transfers of H Shares will be effected. Purchasers of shares who have submitted their instruments of share transfer to the H Share Registrar of the Company and registered as shareholders on the register of members of H Shares of the Company before 4:30 p.m. on Tuesday, March 14, 2017 are entitled to attend and vote in respect of all resolutions to be proposed at the EGM and the H Shares Class Meeting. In order to attend the

LETTER FROM THE BOARD

EGM and the H Shares Class Meeting, holders of H Shares should ensure that all transfer documents, accompanied by the relevant H Share certificates, are lodged with the Company's H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m. on Tuesday, March 14, 2017.

Reply slip and the form of proxy for the EGM and the H Shares Class Meeting have been distributed on Tuesday, 14 February 2017 and have also been published on the website of Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.dfzq.com.cn). Shareholders intending to attend the EGM and/or the H Shares Class Meeting in person or by their proxies should complete and return the reply slip for attending the EGM and/or the H Shares Class Meeting to the Company's H Share Registrar (for holders of H Shares) on or before Saturday, March 11, 2016.

To be valid, for holders of H Shares, the form of proxy and notarized power of attorney or other document of authorization must be delivered to the Company's H Share Registrar not less than 24 hours before the time appointed for the EGM and/or the H Shares Class Meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM and/or the H Shares Class Meeting in person if you so wish.

As indicated above, Shenergy Group, Shanghai Haiyan Investment, SUMG and their respective associates shall abstain from voting on the following three resolutions to be proposed at the EGM and/or the Class Meetings: (1) the resolution in relation to the Proposed Non-public Issuance of A shares; (2) the resolution in relation to the "Proposal in respect of the Proposed Non-public Issuance of A Shares (Revised)"; and (3) the resolution in relation to the related-party's transactions and connected transaction involved in the Proposed Non-public Issuance of A shares. In terms of the resolution in relation to the execution of the subscription agreements with conditions precedent with specific subscribers, Shenergy Group, Shanghai Haiyan Investment, SUMG and their respective associates shall abstain from voting on the Shenergy Subscription Agreement, the Haiyan Subscription Agreement and the SUMG Subscription Agreement, respectively.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date:

- (i) none of Shenergy Group, Shanghai Haiyan Investment or SUMG has entered into or is bound upon any voting trust or other agreement or arrangement or understanding;
- (ii) none of the group companies of Shenergy Group, Shanghai Haiyan Investment and SUMG is subject to any obligation or entitlement causing it have or may have, temporarily or permanently, passed control over the exercise of the voting right in respect of its shares in the Company to a third party, either generally or on a case-by-case basis; and
- (iii) there is not expected to be any discrepancy between the beneficial shareholding interest of Shenergy Group, Shanghai Haiyan Investment or SUMG, respectively, in the Company as disclosed in the circular and the number of shares in the Company in respect of which Shenergy Group, Shanghai Haiyan Investment or SUMG, respectively, will control or will be entitled to exercise control over the voting right at the EGM or the H Shares Class Meeting.

LETTER FROM THE BOARD

Save as mentioned above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Proposed Non-public Issuance of A Shares and therefore no other Shareholder is required to abstain from voting at the EGM and/or the Class Meetings.

VII. HONG KONG LISTING RULES REQUIREMENT

In accordance with Rule 13.39(4) of the Listing Rules, all resolutions at the EGM will be taken by way of a poll.

VIII. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

IX. RECOMMENDATION

Gram Capital Limited has been appointed by the Company as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Shenergy Subscription.

The Independent Board Committee, after considering the advice from the Independent Financial Adviser, is of the view that the terms of the Proposed Non-public Issuance of A Shares and the Shenergy Subscription Agreement are on normal commercial terms and that the Proposed Non-public Issuance of A Shares and the Shenergy Subscription are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Mr. Wu Jianxiong, Mr. Zhang Qian and Mr. Wu Junhao, all being Directors, serve as the general manager, the vice general manager and the department manager of the finance management department, respectively, in Shenergy Group. Accordingly each of the aforementioned Directors has a material interest in the Proposed Non-public Issuance of A Shares and the Shenergy Subscription and have therefore abstained from voting on the relevant Board resolutions. Mr. Chen Bin, being a Director, serves as the assistant to general manager in Shanghai Haiyan Investment. Accordingly Mr. Chen Bin has a material interest in the Proposed Non-public Issuance of A Shares and the Haiyan Subscription and have therefore abstained from voting on the relevant Board resolutions. Mr. Li Xiang, being a Director, serves as the head of operation and management office in SUMG. Accordingly Mr. Li Xiang has a material interest in the Proposed Non-public Issuance of A Shares and the SUMG Subscription and have therefore abstained from voting on the relevant Board resolutions.

LETTER FROM THE BOARD

The Directors (including the members of the Independent Board Committee) are of the view that the transactions contained in this circular are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee) recommend all the Shareholders to vote in favour of the resolutions to be proposed at the EGM and the H Shares Class Meeting.

X. FURTHER INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 42 of this circular, containing its recommendation in respect of the Shenergy Subscription; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 43 to 54 of this circular, containing its recommendation in respect of the Shenergy Subscription.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions approving, among other things, the Shenergy Subscription.

Yours faithfully,
By order of the Board
PAN Xinjun
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



(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))

(Stock Code: 03958)

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY SUBSTANTIAL SHAREHOLDER

We refer to the circular of the Company dated March 30, 2017 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Shenergy Subscription, details of which are set out in the “Letter from the Board” in the Circular. Gram Capital has been appointed as the Independent Financial Adviser with our approval to advise the Independent Board Committee and the Independent Shareholders in this regards.

We wish to draw your attention to the “Letter from the Board” set out on page 42 of the Circular and the “Letter from the Independent Financial Adviser” set out on pages 43 to 54 of the Circular and the additional information set out in the appendices of this Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the “Letter from the Independent Financial Adviser” in the Circular, we concur with the view of the Independent Financial Adviser and consider that the terms of the Shenergy Subscription Agreement are on normal commercial terms and that the Shenergy Subscription are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the EGM and the H Shares Class Meeting for approving the Shenergy Subscription.

Yours faithfully,

Independent Board Committee

Mr. LI Zhiqiang
Mr. WEI Anning

Mr. XU Guoxiang
Mr. PAN Fei

Mr. TAO Xiuming
Mr. XU Zhiming

Independent non-executive Directors

March 30, 2017

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Shenergy Subscription for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

30 March 2017

*To: The independent board committee and the independent shareholders
of 東方證券股份有限公司*

Dear Sirs,

CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY SUBSTANTIAL SHAREHOLDER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Shenergy Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 30 March 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 28 February 2017, the Board has approved the Proposed Non-public Issuance of A Shares, pursuant to which the Company will issue a maximum of 800 million A Shares (inclusive) to not more than 10 specific target subscribers, including Shenergy Group, Shanghai Haiyan Investment and SUMG, which is expected to raise a gross proceeds of up to RMB12 billion (inclusive of the issuance expenses).

As part of the Proposed Non-public Issuance of A Shares, on 28 February 2017, the Company and Shenergy Group entered into the Shenergy Subscription Agreement, pursuant to which Shenergy Group has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not less than 200 million and not more than 230 million A Shares under the Proposed Non-public Issuance of A Shares. Shenergy Group will not participate in the pricing exercise for the Proposed Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for the A Shares at the same subscription price (the “**Subscription Price**”) as other target subscribers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to Board Letter, Shenergy Group is a substantial Shareholder and therefore a connected person of the Company. The Shenergy Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Li Zhiqiang, Mr. Xu Guoxiang, Mr. Tao Xiuming, Mr. Wei Anning, Mr. Pan Fei and Mr. Xu Zhiming (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Shenergy Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Shenergy Subscription is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Shenergy Subscription Agreement and the transactions contemplated thereunder at the EGM and H Shares Class Meeting. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Shenergy Subscription. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Shenergy Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Shenergy Subscription. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any A Shares or H Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Shenergy Subscription, we have taken into consideration the following principal factors and reasons:

(1) Background and reasons for the Shenergy Subscription

Business overview of the Group

With reference of the Board Letter, the Company is principally engaged in securities sales and trading, investment management, brokerage and securities finance, investment banking and other businesses.

Set out below is a summary of the consolidated financial information on the Group for the six months ended 30 June 2016 and the two years ended 31 December 2015 as extracted from the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”) and the prospectus of the Company dated 22 June 2016 (the “**Prospectus**”):

	For the six months ended 30 June 2016 (RMB'million) (unaudited)	For the year ended 31 December 2015 (RMB'million) (audited)	For the year ended 31 December 2014 (RMB'million) (audited)	Change from 2014 to 2015 %
Total revenue	5,474.91	20,252.60	7,812.36	159.24
Profit for the period/year	1,356.38	7,374.17	2,358.70	212.64

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2016 <i>(RMB'million)</i> <i>(unaudited)</i>	As at 31 December 2015 <i>(RMB'million)</i> <i>(audited)</i>	As at 31 December 2014 <i>(RMB'million)</i> <i>(audited)</i>	Change from 2014 to 2015 %
Total assets	192,533.85	207,897.56	107,530.12	93.34
Total liabilities	159,096.03	172,521.82	88,904.63	94.05
Net assets	33,437.82	35,375.75	18,625.50	89.93
Cash and bank balances	41,852.40	55,343.51	23,803.15	132.50

As depicted by the above table, the Group's revenue increased substantially by approximately 159.24% for the year ended 31 December 2015 ("FY2015") as compared to that for the year ended 31 December 2014 ("FY2014"). The Group also recorded substantial increase in profit of approximately 212.64% in FY2015 as compared to FY2014. With reference to the Prospectus, the increase in profit was primarily due to increase in both revenue and profit margin in the Company's securities sales and trading, brokerage and securities financing as well as investment banking business segments.

With reference to the Prospectus, the Group planned to achieve its goals through the following strategies: (i) further enhance collaborative operations and client-oriented comprehensive financial service platform to provide one-stop services; (ii) further strengthen its wealth management business to build up its core competitiveness; (iii) leverage its expertise in investment management and trading, strengthen its active asset management business and build a leading investment management brand; (iv) continue to innovate and expend its international business for future growth; (v) further strengthen prudent risk management and lay a solid foundation for business development; and (vi) further optimize its system for talent development and performance evaluation and enhance corporate culture (the "Group Strategies").

Information on Shenergy Group

With reference to the Board Letter, Shenergy Group is a limited liability company incorporated under the laws of the PRC and is principally engaged in the investment, development and management of electric power and energy infrastructure industry, the investment of natural gas resources, the investment of municipal gas pipe network, the investment and management of real estate and high-technology industry, the industrial investment, the assets management and the domestic trades (except for specific items).

Financing alternatives available to the Group

With reference to the Board Letter, apart from the global offering as detailed under the Prospectus, the Company has not conducted any equity fund raising activity during the 12 months immediately before the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon our enquiry with the Directors, we understood that the Directors have considered various fund raising methods such as debt financing (including convertible bonds) and equity financing (such as rights issue and non-public offering of A Shares and H Shares) as fund raising methods for the Group from Hong Kong capital market and/or the PRC capital market.

In relation to debt financing, according to relevant PRC regulations, the remaining quota for issuing bonds (including convertible bonds) = the most recent audited net assets x 40% – the outstanding balance of the issued bonds; currently, the Company's remaining quota for issuing bonds is relatively low, whose proceeds may not be able to fulfil Company's future fund needs. Bond issuance would also increase the gearing ratio of the Company, increase the financing cost of the Company by way of interest payment, and increase the repayment liabilities of the Company.

The rights issue is targeted at the Company's existing shareholders and shall be implemented to the holders of A Shares and H Shares simultaneously at the same price. Given the significant premium of the price of A Shares over the price of H Shares (for example, on 22 February 2017, the closing price of A Shares was RMB15.46 per share, and the closing price of H Shares was HK\$8.07 per share), it is not practical to determine a price suitable for both classes of Shares, thus it is not reasonable for the Company to conduct rights issue.

As there is a significant premium of the price of A Shares over the price of H Shares, should the Company conduct a fund raising exercise by issuance of new H Shares with proceeds of RMB12.0 billion, assuming that an equivalent pricing basis is adopted to determine the benchmark price for the H Share issuance (that is, being not lower than 90% of the average trading price of the H Shares during the 20 trading days immediately preceding the Pricing Benchmark Date), the number of H Shares to be issued will be substantially more than that required under the Proposed Non-public Issuance of A Shares, which will lead to greater dilution on the shareholding of the existing shareholders.

The Directors advised us that having considered the Group mainly operates in the PRC with most of the transactions RMB denominated, it will be in the interest of the Company to issue new A Shares to obtain the funding directly in RMB. In the event that, the Company conducts fund raising activities by issuance of new H Shares in Hong Kong, the Company is required to convert the foreign currencies raised from such issue to RMB, as well as to go through relevant procedures and approvals as required by the relevant PRC rules and regulations to transfer the proceeds back to the PRC for the Group's uses.

Furthermore, according to 《上市公司證券發行管理辦法》(the Administrative Measures on Securities Issuance by Listed Company*), 《上市公司非公開發行股票實施細則》(the Implementation Rules for the Non-public Issuance of Shares by Listed Companies*) (Revised in 2017), 《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》(the Guidelines on Administrative Approval for Securities Companies No.10 – Increase and Change in Equity Interest of Securities Companies*) as published by CSRC, following the completion of the Proposed Non-public Issuance of A Shares (the “**Completion**”):

- (i) Shenergy Group shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 48 months from the date of the Completion;
- (ii) Shanghai Haiyan Investment shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares, within 48 months if it holds 5% or more of the enlarged total issued share capital of the Company, or within 36 months if it holds less than 5% of the enlarged total issued share capital of the Company, from the date of the Completion;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) SUMG shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 36 months from the date of the Completion; and
- (iv) all other target subscribers shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares, within 12 months if it holds less than 5% of the enlarged total issued share capital of the Company, or within 48 months if it holds 5% or more of the enlarged total issued share capital of the Company, from the date of the Completion.

In light of the aforementioned, the Directors are of the view that the lock-up period would limit the negative impact of the issuance of new A Shares on the market price of the Shares.

Having considered the above, the Directors are of the opinion that the Proposed Non-public Issuance of A Shares, including the Shenergy Subscription, is an appropriate fund raising method currently available for the Group.

Reasons for and benefits of the Shenergy Subscription and the use of proceeds

With reference to the Board Letter, the Board considers that the Proposed Non-public Issuance of A Shares is conducive for the Company to enhance its capital strength, relieve the net capital bottle-neck, optimize the business and profit structure of the Company, constantly fulfill the needs of regulatory requirements; improve the comprehensive competitiveness capacity, keep its position of a Class A securities company, realize the strategic goals of the Company; speed up expanding the innovative business, and increase the risk prevention capacity during the operation of the Company.

The Shenergy Subscription is aimed to successfully complete the A Share refinancing. The subscription of the A Shares by Shenergy Group under the Proposed Non-public Issuance of A Shares demonstrates its positive expectation and support towards the Company's long-term development in the future, which is conducive for the Company to enlarge its capital scale and enhance its capital strength, further accelerate the adjustment to business revenue structure, and grasp strategic opportunities during increasingly intensive competition, which would guarantee the sound and sustainable development of the Company.

Furthermore, with reference to the Board Letter, the gross proceeds to be raised from the Proposed Non-public Issuance of A Shares will be not more than RMB12 billion (inclusive of the issuance expenses). After deducting issuance expenses, the proceeds are intended to be fully used for replenishing capital base and working capital of the Company, so as to expand business scale and improve the competitiveness and risk prevention capacity as detailed in the section headed "PROPOSED NON-PUBLIC ISSUANCE OF A SHARES – Use of proceeds" in the Board Letter, which is consistent with the development of the Group Strategies. For our due diligence purpose, we noted from the 非公开发行A股股票募集资金使用的可行性分析报告 (Feasibility Report on The Use of Proceeds From the Non-public Issuance of A Shares*) of the Company (the "**Feasibility Report**") which was published by the Company on the Shanghai Stock Exchange's website in February 2017 that the prospects of the Proposed Non-public Issuance of A Shares is positive.

If the proceeds of the Proposed Non-public Issuance of A Shares cannot be in place as scheduled, or the actual proceeds turn out to be less than RMB12.0 billion, the Company will adjust the development pace and scale of its business lines, and consider financing by private placement of debts or issuance of corporate bonds, so as to ensure that the Company's business scale matches its capital strength.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having also considered that (i) the Proposed Non-public Issuance of A Shares, including the Shenergy Subscription, is an appropriate fund raising method currently available to the Group due to the reasons as set forth under the sub-section headed “Financing alternatives available to the Group” above; (ii) the proposed use of proceeds from the Proposed Non-public Issuance of A Shares is consistent with the development of the Group Strategies; and (iii) the prospects of the Proposed Non-public Issuance of A Shares is positive, we consider that the Shenergy Subscription is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(2) Principal terms of the Shenergy Subscription Agreement

As part of the Proposed Non-public Issuance of A Shares, on 28 February 2017, the Company and Shenergy Group entered into the Shenergy Subscription Agreement, pursuant to which Shenergy Group has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, not less than 200 million and not more than 230 million A Shares under the Proposed Non-public Issuance of A Shares.

The table below summarises the major terms of the Shenergy Subscription Agreement:

Date

28 February 2017

Parties

- (1) The Company as the issuer; and
- (2) Shenergy Group as the subscriber.

Subscription Price and pricing principles

The Subscription Price shall not be lower than the Benchmark Price, being 90% of the Average Trading Price (being the average trading price of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date (exclusive of the Pricing Benchmark Date), which is calculated by dividing the total trading amount of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date by the total trading volume of the A Shares during the 20 trading days immediately preceding the Pricing Benchmark Date), nor, in any event, shall be lower than the par value of the Company’s shares (the “**Pricing Basis**”).

The Pricing Benchmark Date of the Proposed Non-public Issuance of A Shares is the first day of the offering period of the A Shares under the Proposed Non-public Issuance of A Shares. With reference to the Board Letter, the Company will determine the offering period of the Proposed Non-public Issuance of A Shares after obtaining the approval by the EGM and the Class Meetings on the Proposed Non-public Issuance of A Shares and within six months after obtaining CSRC’s approval on the final issue plan, by considering the recent closing prices of the Company’s A shares, the level of Shanghai composite index and other factors, after consultation with the sponsor (lead underwriter).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Benchmark Price will be adjusted accordingly if there occurs any ex-right or ex-dividend event (such as distribution of dividend, bonus issue or capitalization of capital reserves) between the Pricing Benchmark Date and the Issue Date.

Subject to the abovementioned Benchmark Price, the final Subscription Price will be determined by the Board or other authorized persons, in accordance with the authorization granted at the EGM, the A Shares Class Meeting and the H Shares Class Meeting, with the sponsor (lead underwriter) after the Company has obtained approvals from CSRC for the Proposed Non-public Issuance of A Shares and in accordance with the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (Revised in 2017) (《上市公司非公開發行股票實施細則》(2017年修訂)), having regard to the price offered by the target subscribers and based on principle with price in priority (i.e. the investor who offers higher price has the priority to obtain the stock allocation over the investor who offers lower price in the process of market allotment).

Shenergy Group will not participate in the pricing exercise for the Proposed Non-public Issuance of A Shares, but will accept results of market inquiry and subscribe for the A Shares at the same Subscription Price as other target subscribers.

We noted that the Subscription Price was not fixed as at the date of Shenergy Subscription Agreement, while the previous subscription price under the subscription agreement (entered into between the Company and Shenergy Group on 13 February 2017) had been fixed at RMB13.74 per A Share. For this reason, we discussed with the Directors and understood that the relevant changes regarding the Subscription Price as mentioned above was due to the change of regulation regarding non-public issuance and accordingly the Board approved to revise the proposals in relation to the Proposed Non-public Issuance of A Shares on 28 February 2017. For our due diligence purpose, we obtained the aforesaid regulations (including 《關於修改〈上市公司非公開發行股票實施細則〉的決定》(Decision on Amending Implementing Rules on Non-Public Issuance of Shares by Listed Companies*) (the “**Non-Public Stock Offerings Amendment Decision**”) and 《發行監管問答 – 關於引導規範上市公司融資行為的監管要求》(the Issuance Regulatory Questions and Answers – Regulatory Requirements regarding Guiding and Regulating Listed Companies’ Financing Activities*) (collectively, the “**New PRC Regulations**”) published by the CSRC on 17 February 2017) and acknowledged that the basis is in compliance with the regulations of the PRC.

In addition, as advised by the PRC legal adviser to the Company, the New PRC Regulations apply to listed companies which propose to conduct non-public issuance of A Shares in the PRC whose applications to the CSRC are accepted (受理) on or after 15 February 2017, being the date of passing the Non-Public Stock Offerings Amendment Decision (the “**Decision Date**”).

Accordingly, we have searched over 巨潮資訊網 (Cninfo*, www.cninfo.com.cn, being a website designated by CSRC for the purpose of information disclosure) to identify new non-public new A shares issuance proposal or revised non-public new A shares issuance proposal which applications had not yet been accepted (受理) by CSRC before 15 February 2017 (i.e. the Decision Date) (based on (i) 發行監管部再融資申請企業基本信息情況表 (Department of Public Offering Supervision of CSRC list of basic corporate information on re-finance application*) as published by CSRC; and (ii) that the subject A share listed companies had not yet published announcement regarding the acceptance (受理) of issuance proposal or revised issuance proposal), as announced

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

by companies listed on the Shanghai Stock Exchange/Shenzhen Stock Exchange since 15 February 2017 (i.e. the Decision Date) up to and including the date of the Announcement (the “**Comparables**”), for comparison purpose. We identified 9 Comparables and they are exhaustive, fair and representative. Despite that the businesses, operations and prospects of the Company are not exactly the same as the subject companies of the Comparables, the Comparables are adequate and appropriate to demonstrate the market practices regarding issuance of new A-shares after the New PRC Regulations becoming effective. Summarised below is our relevant findings:

Company	Stock Code	Date of proposal/latest revised proposal	Basis for A-share issue price
重慶市迪馬實業股份有限公司 Chongqing DIMA Industry Co., Ltd.	SH600565	21 February 2017	Not less than 90% of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period)
江蘇江南高纖股份有限公司 Jiangsu Jiangnan High Polymer Fiber Co., Ltd.	SH600527	21 February 2017	Not less than 90% of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period)
通策醫療投資股份有限公司 Topchoice Medical Investment Co., Inc.	SH600763	24 February 2017	<u>90%</u> of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period) (<i>Note</i>)
湖北雙環科技股份有限公司 Hubei Shuanghuan Science and Technology Stock Co., Ltd.	SZ000707	25 February 2017	Not less than (i) 90% of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period); <u>and (ii) last audited net asset value per share of the company</u> (<i>Note</i>)
湖北宜化化工股份有限公司 Hubei Yihua Chemical Industry Co., Ltd.	SZ000422	25 February 2017	Not less than (i) 90% of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period); <u>and (ii) last audited net asset value per share of the company</u> (<i>Note</i>)
北海銀河生物產業投資股份有限公司 Galaxy Biomedical Investment Co., Ltd.	SZ000806	25 February 2017	Not less than 90% of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company	Stock Code	Date of proposal/latest revised proposal	Basis for A-share issue price
山東陽谷華泰化工股份有限公司 Shandong Yanggu Huatai Chemical Co., Ltd.	SZ300121	25 February 2017	Not less than 90% of (i) the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period); and <u>(ii) trading price of the A-shares as at the last trading day immediately preceding the price reference date (i.e. the first day of the issuance period) (Note)</u>
浙江久立特材科技股份有限公司 Zhejiang Jiuli Hi-tech Metals Co., Ltd.	SZ002318	28 February 2017	Not less than 90% of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period)
盛屯礦業集團股份有限公司 Chengtun Mining Group Co., Ltd.	SH600711	28 February 2017	<u>90%</u> of the 20-day average trading price of the A-shares immediately preceding the price referencing date (i.e. the first day of the issuance period) (Note)

Note: Differences in pricing basis between the subject comparable and the basis of the Benchmark Price are underlined for easy reference.

As shown by the above table, the A-share issue price of the Comparables were not fixed as at the date of their relevant announcements. Moreover, (i) the basis of the Subscription Price is comparable to those of the Comparables; and (ii) the Pricing Benchmark Date and the price referencing dates of the Comparables will be the first day of the issuance period.

Having considered that (i) the Subscription Price will reflect the then latest market prices of A Share; (ii) the basis of the Subscription Price is comparable to those of the Comparables; (iii) the basis of the Subscription Price is in compliance with the New PRC Regulations; and (iv) the Subscription Price will be the same to all subscribers, we concur with the Directors that it is acceptable that the Subscription Price was not fixed as at the date of the Shenergy Subscription Agreement and the basis for the determination of the Subscription Price is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Lock-up period

With reference to the Board Letter, Shenergy Group shall not transfer the A Shares subscribed under the Proposed Non-public Issuance of A Shares within 48 months from the date of completion of the Proposed Non-public Issuance of A Shares. As aforementioned, the Directors are of the view that the lock-up period would limit the negative impact of the issuance of new A Shares on the market price of the Shares.

Having considered the above, we are of the view that the terms of the Shenergy Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Dilution effect on the shareholding interests of the existing public Shareholders

As illustrated by the table under the sub-section headed “Effects of the Proposed Non-Public Issuance of A Shares on the Shareholding Structure of the Company” of the Board Letter, the shareholding interests of the existing public Shareholders (including all of the public A Shareholders and H Shareholders) in the Company would be diluted by approximately 1.9 percentage point immediately after completion of the Proposed Non-public Issuance of A Shares (including the Shenergy Subscription), based on assumptions as set out in the aforesaid section of the Board Letter. Taking into account (i) the reasons for and benefits of the Shenergy Subscription; and (ii) that the principal terms of the Shenergy Subscription Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

(4) Financial effects of the Shenergy Subscription

Based on the announcement of the Company dated 24 January 2017, the unaudited consolidated net asset value attributable to the owners of the Company was approximately RMB40.51 billion as at 31 December 2016. As confirmed by the Directors, the Shenergy Subscription will increase the net asset value of the Group attributable to the owners of the Company.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Shenergy Subscription.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Shenergy Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Shenergy Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM and H Shares Class Meeting to approve the Shenergy Subscription Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

* *For identification purposes*

NOTICE OF EXTRAORDINARY GENERAL MEETING



(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))

(Stock Code: 03958)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting (the “**Extraordinary General Meeting**”) of 東方證券股份有限公司 (the “**Company**”) will be held at Jing Song Hall, 4/F, Pine City Hotel, No. 777 Zhaojiabang Road, Shanghai, the People's Republic of China (the “**PRC**”) on Friday, April 14, 2017 at 2:00 p.m., for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the resolution in relation to the satisfaction of the criteria for non-public issuance of A shares by the Company.
2. To consider and approve the resolution in relation to the “Feasibility Report on the Use of Proceeds from the Proposed Non-public Issuance of A Shares”.
3. To consider and approve the resolution in relation to the utilisation of proceeds from previous fund raising.
4. To consider and approve the resolution in relation to the related-party's transactions and connected transaction involved in the non-public issuance of A shares.
5. To consider and approve the resolution in relation to the execution of the subscription agreements with conditions precedent with specific subscribers, including:
 - 5.01. To consider and approve the resolution in relation to the execution of the subscription agreement with conditions precedent with Shenergy (Group) Company Limited;
 - 5.02. To consider and approve the resolution in relation to the execution of the subscription agreement with conditions precedent with Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司); and
 - 5.03. To consider and approve the resolution in relation to the execution of the subscription agreement with conditions precedent with Shanghai United Media Group.
6. To consider and approve the resolution in relation to the authorization by the Extraordinary General Meeting, the class meeting of A shareholders of the Company and H Shares Class Meeting to the board of directors to deal with relevant matters involved in the non-public issuance of A shares.

NOTICE OF EXTRAORDINARY GENERAL MEETING

7. To consider and approve the resolution in relation to the dilution by the non-public issuance of A shares on current returns and the remedial measures.
8. To consider and approve the resolution in relation to the shareholders' returns in the next three years (2017-2019).
9. To consider and approve the proposal regarding the general mandate to issue onshore debt financing instruments of the Company, including:
 - 9.01. issue size;
 - 9.02. type;
 - 9.03. term;
 - 9.04. interest rate and basis of determination;
 - 9.05. issue method and issue target;
 - 9.06. use of proceeds;
 - 9.07. authorisation matters; and
 - 9.08. validity period of resolution.

SPECIAL RESOLUTIONS

10. To consider and approve the resolution in relation to the proposed non-public issuance of A shares by the Company, including:
 - 10.01. issue method;
 - 10.02. class and par value of shares to be issued;
 - 10.03. issue price and pricing principles;
 - 10.04. target subscribers and the methods for subscription;
 - 10.05. number of shares to be issued;
 - 10.06. lock-up period for the proposed issuance;
 - 10.07. amount and use of proceeds;
 - 10.08. place of listing of the shares to be issued;
 - 10.09. treatment of the undistributed profit retained prior to the proposed issuance; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

10.10. validity period of resolution.

11. To consider and approve the resolution in relation to the “Proposal in respect of the Proposed Non-public Issuance of A Shares (Revised)”.

By order of the Board of Directors

PAN Xinjun

Chairman

Shanghai, the PRC

February 28, 2017

Notes:

1. Eligibility for attending the Extraordinary General Meeting and date of registration of holders for H Shares

The register of members of H Shares of the Company will be closed from Wednesday, March 15, 2017 to Friday, April 14, 2017 (both days inclusive), during which time no share transfers of H Shares will be effected. Purchasers of shares who have submitted their instruments of share transfer to the H Share Registrar of the Company and registered as shareholders on the register of members of H Shares of the Company before 4:30 p.m. on Tuesday, March 14, 2017 are entitled to attend and vote in respect of all resolutions to be proposed at this Extraordinary General Meeting.

In order to attend this Extraordinary General Meeting, holders of H Shares should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m. on Tuesday, March 14, 2017.

2. Proxy

- (1) Each shareholder entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (2) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing, or if the appointor is a legal entity, either under seal or signed by a director or a duly authorized attorney. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign or other document of authorization must be notarized.

To be valid, for holders of H Shares, the form of proxy and notarized power of attorney or other document of authorization must be delivered to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the Extraordinary General Meeting.

3. Registration procedures for attending the Extraordinary General Meeting

- (1) A shareholder or his proxy should present proof of identity when attending the Extraordinary General Meeting. If a shareholder is a legal person, its legal representative or other person authorized by the board of directors or other governing body of such shareholder may attend the Extraordinary General Meeting by providing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- (2) Shareholders intending to attend the Extraordinary General Meeting in person or by their proxies should complete and return the reply slip for attending the Extraordinary General Meeting to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares), at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before Saturday, March 25, 2017.

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. Voting by poll

According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a shareholders' general meeting must be taken by poll.

5. Miscellaneous

(1) The Extraordinary General Meeting is expected to be held for no more than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.

(2) The address of Computershare Hong Kong Investor Services Limited is:

17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(3) The registered office of the Company:

22/F, 23/F and 25-29/F
Building 2, No. 318 Zhongshan South Road
Shanghai
The People's Republic of China

Contact office: Office of the Board
Telephone No.: 86 (21) 63325888
Facsimile No.: 86 (21) 63326010
Contact Person: Mr. WANG Rufu

As at the date of this notice, the Board of Directors comprises Mr. PAN Xinjun and Mr. JIN Wenzhong as executive Directors; Mr. WU Jianxiong, Mr. ZHANG Qian, Mr. WU Junhao, Mr. CHEN Bin, Mr. LI Xiang, Mr. XU Jianguo, Ms. HUANG Laifang and Mr. ZHOU Yao as non-executive Directors; and Mr. LI Zhiqiang, Mr. XU Guoxiang, Mr. TAO Xiuming, Mr. WEI Anning, Mr. PAN Fei and Mr. XU Zhiming as independent non-executive Directors.

NOTICE OF H SHARES CLASS MEETING



(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))
(Stock Code: 03958)

NOTICE OF H SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that the class meeting of H Shareholders (the “**H Shares Class Meeting**”) of 東方證券股份有限公司 (the “**Company**”) will be held at Jing Song Hall, 4/F, Pine City Hotel, No. 777 Zhaojiabang Road, Shanghai, the People's Republic of China (the “**PRC**”) on Friday, April 14, 2017 immediately following the conclusion of the Extraordinary General Meeting and the class meeting of A shareholders of the Company or any adjournment thereof, for the following purposes:

Special Resolutions

1. To consider and approve the resolution in relation to the proposed non-public issuance of A shares by the Company, including:
 - 1.01. issue method;
 - 1.02. class and par value of shares to be issued;
 - 1.03. issue price and pricing principles;
 - 1.04. target subscribers and the methods for subscription;
 - 1.05. number of shares to be issued;
 - 1.06. lock-up period for the proposed issuance;
 - 1.07. amount and use of proceeds;
 - 1.08. place of listing of the shares to be issued;

NOTICE OF H SHARES CLASS MEETING

- 1.09. treatment of the undistributed profit retained prior to the proposed issuance; and
- 1.10. validity period of resolution.
2. To consider and approve the resolution in relation to the “Proposal in respect of the Proposed Non-public Issuance of A Shares (Revised)”.
 3. To consider and approve the resolution in relation to the execution of the subscription agreements with conditions precedent with specific subscribers, including:
 - 3.01. To consider and approve the resolution in relation to the execution of the subscription agreement with conditions precedent with Shenergy (Group) Company Limited;
 - 3.02. To consider and approve the resolution in relation to the execution of the subscription agreement with conditions precedent with Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司); and
 - 3.03. To consider and approve the resolution in relation to the execution of the subscription agreement with conditions precedent with Shanghai United Media Group.
4. To consider and approve the resolution in relation to the authorization by the Extraordinary General Meeting, the class meeting of A shareholders of the Company and H Shares Class Meeting to the board of directors to deal with relevant matters involved in the non-public issuance of A shares.

By order of the Board of Directors
PAN Xinjun
Chairman

Shanghai, the PRC
February 28, 2017

NOTICE OF H SHARES CLASS MEETING

Notes:

1. Eligibility for attending the H Shares Class Meeting and date of registration of holders for H Shares

The register of members of H Shares of the Company will be closed from Wednesday, March 15, 2017 to Friday, April 14, 2017 (both days inclusive), during which time no share transfers of H Shares will be effected. Purchasers of shares who have submitted their instruments of share transfer to the H Share Registrar of the Company and registered as shareholders on the register of members of H Shares of the Company before 4:30 p.m. on Tuesday, March 14, 2017 are entitled to attend and vote in respect of all resolutions to be proposed at this H Shares Class Meeting.

In order to attend this H Shares Class Meeting, holders of H Shares should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before 4:30 p.m. on Tuesday, March 14, 2017.

2. Proxy

- (1) Each shareholder entitled to attend and vote at the H Shares Class Meeting may appoint one or more proxies in writing to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (2) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing, or if the appointor is a legal entity, either under seal or signed by a director or a duly authorized attorney. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign or other document of authorization must be notarized.

To be valid, for holders of H Shares, the form of proxy and notarized power of attorney or other document of authorization must be delivered to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the H Shares Class Meeting.

3. Registration procedures for attending the H Shares Class Meeting

- (1) A shareholder or his proxy should present proof of identity when attending the H Shares Class Meeting. If a shareholder is a legal person, its legal representative or other person authorized by the board of directors or other governing body of such shareholder may attend the H Shares Class Meeting by providing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.
- (2) Shareholders intending to attend the H Shares Class Meeting in person or by their proxies should complete and return the reply slip for attending the H Shares Class Meeting to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares), at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before Saturday, March 25, 2017.

4. Voting by poll

According to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a shareholders' general meeting must be taken by poll. As such, each of the resolutions set out in the notice of the H Shares Class Meeting will be voted on by poll.

5. Miscellaneous

- (1) The H Shares Class Meeting is expected to be held for no more than half a day. Shareholders who attend the meeting in person or by proxy shall bear their own travelling and accommodation expenses.
- (2) The address of Computershare Hong Kong Investor Services Limited is:

17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

NOTICE OF H SHARES CLASS MEETING

(3) The registered office of the Company:

22/F, 23/F and 25-29/F
Building 2, No. 318 Zhongshan South Road
Shanghai
The People's Republic of China

Contact office: Office of the Board
Telephone No.: 86 (21) 63325888
Facsimile No.: 86 (21) 63326010
Contact Person: Mr. WANG Rufu

As at the date of this notice, the Board of Directors comprises Mr. PAN Xinjun and Mr. JIN Wenzhong as executive Directors; Mr. WU Jianxiong, Mr. ZHANG Qian, Mr. WU Junhao, Mr. CHEN Bin, Mr. LI Xiang, Mr. XU Jianguo, Ms. HUANG Laifang and Mr. ZHOU Yao as non-executive Directors; and Mr. LI Zhiqiang, Mr. XU Guoxiang, Mr. TAO Xiuming, Mr. WEI Anning, Mr. PAN Fei and Mr. XU Zhiming as independent non-executive Directors.

DECLARATION

1. The Company and all members of the Board warrant that the contents of the Proposal is true, accurate and complete and does not contain any false information, misleading statement or material omission.
2. The Company assumes the liabilities for any changes in operation and revenue of the Company after the Non-public Issuance. Any investment risks arising from the Non-public Issuance shall be borne by the investors.
3. The Proposal is the statement of the Board of the Company on the Non-public Issuance, and any contradictory statement constitutes misinterpretation.
4. Investors should consult their stock brokers, solicitors, professional accountants or other professional advisors for any questions and doubts.
5. Matters mentioned in the Proposal do not represent any substantive judgment, confirmation, authorisation or approval from the approving authorities regarding the matters relating to the Non-public Issuance of Shares. Effect and completion of the matters relating to the Non-public Issuance of A Shares mentioned in the Proposal shall be subject to consideration and approval at the shareholders' general meetings, A Shareholders' Class Meeting and H Shareholders' Class Meeting of the Company, and the approval or authorisation by competent authorities.

IMPORTANT NOTICE

1. The Proposal on the Non-public Issuance of A Shares by 東方證券股份有限公司 (hereinafter referred to as “**DFZQ**” or the “**Company**”) (Revised) has been considered and approved at the twenty sixth meeting of the third session of the Board on February 28, 2017. Pursuant to relevant requirements, the Proposal in relation to the Issuance is subject to the consideration and approval at shareholders' general meetings, A Shareholders' Class Meeting and H Shareholders' Class Meeting of the Company, and the authorisation by CSRC.
2. The target investors for the Non-public Issuance of A Shares shall be the existing shareholders of the Company, i.e. Shenergy (Group) Company Limited (hereinafter referred to as “**Shenergy Group**”), Shanghai Haiyan Investment Management Company Limited (hereinafter referred to as “**Shanghai Haiyan Investment**”), Shanghai United Media Group, and not more than ten specific target investors including securities investment fund management companies, securities companies, insurance institutional investors, and the trust investment companies subscribing with their own funds, financial companies, asset management companies, qualified foreign institutional investors, other institutional investors approved by the CSRC and natural persons. Upon receipt of approval in respect of the Non-public Issuance, according to the requirements of relevant laws, regulations and regulatory authorities, and based on the subscription price quoted by target investors, the final target investors other than Shenergy Group, Shanghai Haiyan Investment, Shanghai United Media Group shall be determined by the Board and sponsors (the lead underwriter(s)) within the scope of authorities of the shareholders' general meetings, A Shareholders' Class Meeting and H Shareholders' Class Meeting of the Company.

3. The number for the Non-public Issuance of A Shares shall be not more than 800,000,000 shares (including 800,000,000 shares), where Shenergy Group intends to subscribe for not less than 200,000,000 shares and not more than 230,000,000 shares in cash, Shanghai Haiyan Investment intends to subscribe for not more than 120,000,000 shares in cash (not more than RMB1.8 billion), and Shanghai United Media Group intends to subscribe for not more than 50,000,000 shares in cash (not more than RMB0.75 billion). The number of shares to be issued shall be adjusted accordingly if any ex-rights or ex-dividends events of shares of the Company, such as distribution of dividends, bonus issue, and capitalization from capital reserve, occur during the period from the Board's resolution date of the Non-public Issuance to the date of issue. Within the scope of the issue size, the final number for the Issuance shall be determined by the Board under the authorisation granted at the shareholders' general meeting, A Shareholders' Class Meeting and H Shareholders' Class Meeting of the Company with the sponsors (the lead underwriter(s)) through negotiation based on actual subscription made.
4. The Pricing Base Date for the Non-public Issuance of A Shares shall be the first day of the offering period of the A Shares under the Proposed Non-public Issuance of A Shares. The price for the Issuance shall not be less than 90% of the average trading price of shares of the Company over 20 trading days immediately before the Pricing Base Date. The base price for the Issuance shall be adjusted accordingly if any ex-rights or ex-dividends events of shares of the Company, such as distribution of dividends, bonus issue, and capitalization from capital reserve, occur during the period from the Pricing Base Date to the date of issue. Upon receipt of approval from CSRC in respect of the Non-public Issuance, according to the requirements of the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) (Revised in 2017), and based on the market-oriented inquiries, the final issue price shall be determined through negotiation by the Board and sponsors (the lead underwriter(s)) with the authorities of the shareholders' general meetings, A Shareholders' Class Meeting and H Shareholders' Class Meeting.

Shenergy Group, Shanghai Haiyan Investment, Shanghai United Media Group will not participate in the process of market inquiry for pricing for the Issuance, while they undertook to accept the result of market inquiry and shall subscribe at the same price with other investors.

5. According to the Administrative Measures on Securities Issuance by Listed Company (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) (Revised in 2017) and the Guidelines on Administrative Approval for Securities Companies No.10 – Increase and Change in Equity Interest of Securities Companies (《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》), following the completion of the Non-public Issuance:

The shares subscribed by Shenergy Group shall be locked up for 48 months from the date of completion of the Issuance;

If Shanghai Haiyan Investment holds more than 5% (including 5%) of the shares of the Company upon the completion of the Issuance, the shares subscribed by it shall be locked up for 48 months from the date of completion of Issue; If Shanghai Haiyan Investment holds less than 5% of the shares of the Company upon the completion of the Issuance, the shares subscribed by it shall be locked up for 36 months from the date of completion of the Issuance.

The shares subscribed by Shanghai United Media Group shall be locked up for 36 months from the date of completion of Issue.

The shares subscribed by other target investors holding less than 5% (exclusive 5%) of the shares of the Company shall be locked up for 12 months from the date of completion of the Issuance, while the shares subscribed by other target investors holding more than 5% (including 5%) of the shares of the Company shall be locked up for 48 months from the date of completion of the Issuance.

Where there are provisions of laws and regulations on the lock-up period, the provisions shall prevail.

6. The number of A shares to be issued under the Non-public Issuance shall not be more than 800 million shares (including 800 million shares) and the proceeds is expected to be not more than RMB12 billion which after deducting the cost of issue shall be used for increasing the capital of the Company, and supplementing the working capital of the Company to expand the business scale so as to improve the competitiveness and the risk resistance capability of the Company.
7. The shareholding structure of the Company is relatively fragmented, and there is no controlling shareholder or actual controller before and after the Issuance. The Issuance will not result in any change to the control of the Company.

Before the Issuance, Shenergy Group as the first largest shareholder of the Company holds in aggregate 1,537,522,400 A shares of the Company, representing 24.74% of total share capital of the Company. The number of shares under the Issuance shall not be more than 800,000,000 shares. Based on the high end of 800,000,000 shares under the Issuance and 230,000,000 shares to be subscribed by Shenergy Group, the proportion of shares held by Shenergy Group of the total share capital after the Issuance shall be adjusted to 25.19%, thus it shall remain the first largest shareholder of the Company.

8. The Company's accumulated undistributed profits prior to the Non-public Issuance shall be shared by the new and existing shareholders of the Company after the Non-public Issuance in proportion to their respective holdings of shares.

9. According to the requirements of the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) and the Guideline No.3 for the Supervision and Administration of Listed Companies – Cash Dividends Distribution of Listed Companies (《上市公司監管指引第3號–上市公司現金分紅》) issued by the CSRC, the Company shall specify the priority of cash dividends over share dividends in profit distribution in the Articles of Association. The Company has considered and approved the Proposal on Amending the Articles of Association (Draft) for Post-IPO Use (《關於修改上市後使用的〈公司章程〉(草案)的議案》) to further improve the profit distribution policy of the Company. Please refer to the “Section five – Profit distribution and implementation” of the Proposal in relation to the Company’s profit distribution policy, the amount and proportion of cash dividends for the recent three years, the arrangement of use of undistributed profits.

10. According to the requirements of relevant laws and regulations, the relevant matters related to the Non-public Issuance of A Shares are subject to the consideration and approval at the shareholders’ general meetings, A Shareholders’ Class Meeting and H Shareholders’ Class Meeting of the Company, respectively, and the authorisation of the CSRC.

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DEFINITION

In this proposal, the following expressions shall have the following meanings unless the context otherwise requires:

“Company”, “Issuer”, “DFZQ”	東方證券股份有限公司
“A Share”	ordinary share(s) denominated in Renminbi of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“Non-public Issuance”, “Issue”	the Non-public Issuance of A Shares to specific investors by 東方證券股份有限公司 to raise funds
“Articles of Association”	the articles of association of 東方證券股份有限公司
“Board Meeting”	the twenty sixth meeting of the third session of the Board of 東方證券股份有限公司
“Proposal”	the proposal on the Non-public Issuance of A Shares of 東方證券股份有限公司 for year 2017 (Revised)
“Pricing Base Date”	the first day of the offering period of the A Shares under the Proposed Non-public Issuance of A Shares
“Agreement”	the Conditional Share Subscription Agreement signed by 東方證券股份有限公司 with each of Shenergy (Group) Company Limited, Shanghai Haiyan Investment Management Company Limited and Shanghai United Media Group
“CSRC”	the China Securities Regulation Commission and its delegate
“SSE”	Shanghai Stock Exchange
“Shenergy Group”	Shenergy (Group) Company Limited
“Shanghai Haiyan Investment”	Shanghai Haiyan Investment Management Company Limited
“FICC”	fixed Income, currencies and commodity futures
“Orient Futures”	Shanghai Orient Securities Futures Co., Ltd. (上海東證期貨有限公司)
“Orient Asset Management”	Shanghai Orient Securities Asset Management Co., Ltd. (上海東方證券資產管理有限公司)

“Orient Capital”	Shanghai Orient Securities Capital Investment Co., Ltd. (上海東方證券資本投資有限公司)
“Citi Orient”	Citi Orient Securities Co., Ltd. (東方花旗證券有限公司)
“Orient Innovation Investment “	Shanghai Orient Securities Innovation Investment Co., Ltd. (上海東方證券創新投資有限公司)
“China Universal”	China Universal Asset Management Limited Liability Company (匯添富基金管理股份有限公司)
“Company Law”	the Company Law of the People’s Republic of China (《中華人民共和國公司法》)
“Securities Law”	the Securities Law of the People’s Republic of China (《中華人民共和國證券法》)
“RMB”, “RMB’0000”, “RMB100 million”	Renminbi Yuan, Renminbi ’0000, Renminbi 100 million

Note: Any discrepancies in any table for the Proposal between the total shown and the sum of the amounts listed are due to rounding.

SECTION I OVERVIEW OF PLAN FOR THE NON-PUBLIC ISSUANCE

I. Basic Information of the Company

Chinese name of the Company:	東方證券股份有限公司
English name of the Company:	ORIENT SECURITIES COMPANY LIMITED
Registered address:	22F, 23F and 25-29F, Building 2, No. 318, South Zhongshan Road, Shanghai
Legal representative:	Pan Xinjun
Registered capital:	RMB6,215,452,011
Date of incorporation:	December 10, 1997
Place of listing for the shares:	Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited
Stock short name:	DFZQ (A Share, H Share)
Stock code:	600958.SH, 3958.HK
Date of listing:	March 23, 2015 (A Share), July 8, 2016 (H Share)
Scope of operation:	securities brokerage, margin financing and securities lending; securities investment advisory; financial advisory related to securities trading and securities investing activities; proprietary trading of securities; proxy sale of securities investment funds; intermediary introduction business for futures companies; proxy sale of financial products; securities underwriting (only including treasury bonds, financial bonds of policy banks, short-term financing bills and medium-term notes); stock option market-making business. 【For the items subject to approval according to laws, the operating activities shall be conditional upon approval from relevant departments】

II. Background and Purpose of the Non-public Issuance

As the outline of the financial reform in China become increasingly clearer, the non-bank financial industry in China is experiencing a greater opportunity for development under guideline of purpose to promote market-oriented reforms and raise the proportion of direct financing. Therefore, the Company seized the historical opportunity to expand the scale of operation and enhance capital strength

leveraging on its capital operation platform through the implementation of refinancing of A Shares, to further accelerate the adjustment to its structure of business income, improve the market share and scale of brokerage business and investment banking business and to consolidate its well positioned proprietary business and asset management business, so as to gain strategic advantages for the Company in increasingly intense competition.

Specifically, the Company's plan to implement the A-share refinancing to supplement the capital need is mainly reflected in the following areas:

(1) Tamp capital strength to improve industry position

According to the statistics from the Securities Association of China in 2015, the total assets of the Company in the end of 2015 amounted to RMB207.898 billion, accounted for 3.33% of the total assets of the entire industry and ranked 10th in the industry; the total net assets amounted to RMB35.376 billion, accounted for 2.44% of the total amount in the industry, and ranked 11st in the industry; the total net capital amounted to RMB25.759 billion, accounted for 2.06% of the total amount in the industry, and ranked 11st in the industry. The size of assets and capital of the Company still has a certain distance from those of the top-ranked securities brokers in the industry, which resulted in certain constraints on the development of operations of the Company in the future as well as certain limitations on the improvement of the Company's position in the industry.

The securities industry is highly related to capital size, where the capital size determines the comprehensive competitive position of securities companies to a large extent. Under the existing industry regulatory system centering on net capital, the net capital is the key for the future development of the Company. The Company is urgently required to tamp its capital strength leveraging on capital platform, and to improve its size of assets and capital, so as to lay a solid foundation and provide requisite capital security for its various businesses, in order to further improve its industry position.

(2) Consolidate competitive strength and increase business investment

According to the rankings published by the Securities Association of China in 2015, the securities investment business, net income from trading of securities on behalf of clients business (including trading seats leasing), entrusted asset management, net income from financing business and investment banking business ranks 2nd, 19th, 5th, 15th and 21st in the industry. Currently, the Company has a high share in securities investment business, which is in leading position in the industry, while there is still large space of development in securities brokerage business, net income from financing business and investment banking business.

In order to consolidate the Company's competitive strength in the securities investment business and comprehensively improve the scale of investment management business, wealth management business of margin financing and securities lending business, the Company is urgently required to raise funds to supplement its capital strength to meet the capital needs for

comprehensive improvement in business scale and increase in investment in advantaged businesses, so as to further improve the industry position and return on equity of the Company, to create greater return for shareholders.

(3) Reduce liquidity risk to increase risk resistance capability

In December, 2016, the Securities Association of China revised the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》), which imposes higher requirements on liquidity risk management of securities companies. Securities companies are required to establish a sound liquidity risk management system, and carry out effective identification, measurement, supervision and control for liquidity risk to timely meet liquidity requirements at a reasonable cost. Only keeping a capital scale which matches the business development scale is able to better prevent and resolve various risks including liquidity risk arising in the Company's operation, market risk, credit risk, operational risk and reputation risk.

The Company increases its capital base through planning and implementing the Non-public Issuance of shares, which can help the Company reduce its liquidity risk and optimize capital structure, so as to further improve the risk resistance capability of the Company.

III. Target Investors for the Issuance and Its Relation with the Company

Target investors of the Issuance shall be not more than ten (including ten) specific targets, including Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group. Other than Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group, target investors include: securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies subscribing with their own funds, financial companies, asset management companies, qualified foreign institutional investors and other institutional investors approved by the CSRC and natural persons. A securities investment fund management company subscribes for the shares through two or more funds under its management will be regarded as one subscriber. Trust investment companies may only subscribe with their own funds.

All investors for the Issuance shall subscribe the A Shares issued under the Non-public Issuance in cash.

Upon receipt of approval from CSRC in respect of the Issuance, pursuant to the requirements of the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) (Revised in 2017), the final investors for the Issuance shall be reasonably determined based on the quoted subscription price and according to the principal of price priority. If there are new provisions from relevant laws, regulations and regulatory documents on the investors for non-public issuance of shares, then the Company shall make adjustment based on new provisions.

Among the investors, as of the date of issue of the Proposal, Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group are existing shareholders of the Company. Except for the abovementioned, other investors for the Issuance have no connected relations with listed companies.

IV. Summary of the Plan for the Non-public Issuance***(I) Method and Time of the Issuance***

All the shares for the Issuance shall be issued, by way of Non-public Issuance of ordinary shares (A Shares) denominated in Renminbi listed on domestic exchanges to specific target investors, to not more than ten specific target investors within six months from the date of approval from CSRC.

(II) Class and Nominal Value of the Shares for the Non-public Issuance

The class of the shares for the Issuance shall be ordinary shares (A Shares) denominated in Renminbi listed on domestic exchanges with a nominal value of RMB1.00 each.

(III) Target Investors and Method of Subscription for the Issuance

Target investors of the Issuance shall be not more than ten specific targets, including Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group. The target investors shall be securities investment fund management companies, securities companies, insurance institutional investors, trust investment companies subscribing with their own funds, financial companies, asset management companies, qualified foreign institutional investors and other institutional investors approved by the CSRC and natural persons. A securities investment fund management company subscribes for the shares through two or more funds under its management will be regarded as one subscriber. Trust investment companies may only subscribe with their own funds. All investors for the Issuance shall subscribe the shares issued under the Non-public Issuance in cash.

Upon receipt of approval from CSRC in respect of the Issuance by the Company, pursuant to the requirements of the Implementation Rules for the Non-public Issuance of shares by Listed Companies (《上市公司非公开发售股票实施细则》) (Revised in 2017), the final target investors for the Issuance shall be reasonably determined based on the quoted subscription price and according to the principal of price priority. If there are new provisions from relevant laws, regulations and regulatory documents on the investors for non-public issuance of shares, then the Company shall make adjustment based on new provisions.

(IV) Pricing Base Date, Price for the Issuance and Method of Pricing

The Pricing Base Date for the Issuance shall be the first day of the offering period of the A Shares under the Proposed Non-public Issuance of A Shares. The price for the Issuance of shares shall not be less than 90% of the average trading price of shares of the Company over 20 trading days immediately before the Pricing Base Date. The average trading price of A Shares over 20 trading days immediately before the Pricing Base Date = total trading amount of A Shares over 20 trading days immediately before the Pricing Base Date/total trading volume of A Shares over 20 trading days immediately before the Pricing Base Date.

The base price for the Issuance shall be adjusted accordingly if any ex-rights or ex-dividends events of shares of the Company, such as distribution of dividends, bonus issue, and capitalization from capital reserve, occur during the period from the Pricing Base Date to the date of issue.

On the basis of the above-mentioned base price for the Issuance, upon receipt of approval from CSRC in respect of the Non-public Issuance, pursuant to relevant requirements of the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票的實施細則》) (Revised in 2017), the final issue price shall be determined based on the quoted subscription price from the investors and according to the principal of price priority through negotiation by the Board and sponsors (the lead underwriter(s)) with the authorities of the shareholders' general meetings, A Shareholders' Class Meeting and H Shareholders' Class Meeting. Shenergy Group, Shanghai Haiyan Investment, Shanghai United Media Group will not participate in the process of market inquiry for pricing for the Non-public Issuance, while they undertook to accept the result of market inquiry and shall subscribe at the same price with other target investors for the Issuance.

(V) Number of Shares to be Issued

The number for the Non-public Issuance of shares to specific target investors shall be not more than 800,000,000 shares (including 800,000,000 shares), where Shenergy Group intends to subscribe for not less than 200,000,000 Shares and not more than 230,000,000 shares in cash under the Non-public Issuance, Shanghai Haiyan Investment intends to subscribe for not more than 120,000,000 shares in cash (not more than RMB1.8 billion) under the Non-public Issuance, and Shanghai United Media Group intends to subscribe for not more than 50,000,000 shares in cash (not more than RMB0.75 billion) under the Non-public Issuance. The number of shares to be issued shall be adjusted accordingly if any ex-rights or ex-dividends events of shares of the Company, such as distribution of dividends, bonus issue, and capitalization from capital reserve, occur during the period from the Board's resolution date of the Non-public Issuance to the date of issue. Within the scope of the issue size, the final number for the Issuance shall be determined by the Board under the authorisation granted at the shareholders' general meeting, A Shareholders' Class Meeting and H Shareholders' Class Meeting of the Company with the sponsors (the lead underwriter(s)) through negotiation based on actual subscription made.

(VI) Lock-up Period

According to the Administrative Measures on Securities Issuance by Listed Company (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) (Revised in 2017) and the Guidelines on Administrative Approval for Securities Companies No.10 – Increase and Change in Equity Interest of Securities Companies (《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》), following the completion of the Non-public Issuance,

The shares subscribed by Shenergy Group shall be locked up for 48 months from the date of completion of Issue;

If Shanghai Haiyan Investment holds more than 5% (including 5%) of the shares of the Company upon the completion of the Issuance, the shares subscribed by it shall be locked up for 48 months from the date of completion of Issue; If Shanghai Haiyan Investment holds less than 5% of the shares of the Company upon the completion of the Issuance, the shares subscribed by it shall be locked up for 36 months from the date of completion of the Issuance.

The shares subscribed by Shanghai United Media Group shall be locked up for 36 months from the date of completion of Issue.

The shares subscribed by other target investors holding less than 5% (exclusive 5%) of the shares of the Company shall be locked up for 12 months from the date of completion of the Issuance, while the shares subscribed by other target investors holding more than 5% (including 5%) of the shares of the Company shall be locked up for 48 months from the date of completion of the Issuance.

Where there are provisions of laws and regulations on the lock-up period, the provisions shall prevail.

(VII) Amount and Use of Proceeds

The number of A shares to be issued under the Non-public Issuance shall not be more than 800 million shares (including 800 million shares) and the proceeds is expected to be not more than RMB12 billion which after deducting the cost of issuance shall be used for increasing the capital of the Company, and supplementing the working capital of the Company to expand the business scale so as to improve the competitiveness and the risk resistance capability of the Company.

The key use of proceeds from the Issuance is as follows:

- (1) Supporting brokerage and securities financing business development: ① further improving the securities financing service capacity; ② promoting the transformation and development of the wealth management business of the Company
- (2) Investing in sales and trading business development: ① continuing to develop the fixed income proprietary business; ② investing greater resources in market neutral investment strategy; ③ further developing NEEQ market-making business
- (3) Improving investment management service capacity: ① strengthening active management capacity of investment management business; ② maintaining rapid growth of mutual fund management business; ③ expanding investment in direct investment and private equity business
- (4) Expanding innovative business field: ① expanding investment in FICC, OTC market, internet finance, and internationalized business; ② expanding investment in building internet platform, trading and information system
- (5) Advancing collectivized development strategy of the Company

(6) Working capital and other general corporate purposes

(VIII) Arrangement for the Accumulated Undistributed Profits Prior to the Non-public Issuance

The Company's accumulated undistributed profits prior to the Non-public Issuance shall be shared by the new and existing shareholders of the Company after the Non-public Issuance in proportion to their respective holdings of shares.

(IX) Period of Validity of the Resolution Relating to the Issuance

The resolution relating to the Non-public Issuance of shares shall be valid within twelve months from the date of the plan of the Issuance being considered and passed at the shareholders' general meeting, A Shareholders' Class Meeting and H Shareholders' Class Meeting.

(X) Place of Listing

The shares for the Issuance shall be applied to be listed on Shanghai Stock Exchange.

V. Whether the Non-public Issuance Constitutes a Connected Transaction

As the shareholders of the Company, being Shenergy Group, Shanghai Haiyan Investment, Shanghai United Media Group, shall participate in the Issuance directly, the Issuance shall constitute a connected transaction. The Company will strictly comply with the laws and regulations and internal rules of the Company to fulfill the approval procedures for connected transactions. In the process of voting for the Non-public Issuance of shares by the Board of the Company, the connected directors have abstained from voting and the independent directors have expressed their views regarding the connected transaction. Upon submitting the relevant resolution for the Non-public Issuance to the shareholders' general meeting, A Shareholders' Class Meeting and H Shareholders' Class Meeting of the Company for consideration, the connected shareholders shall also abstain from voting.

VI. Whether the Issuance Causes a Change in the Control of the Company

The shareholding structure of the Company is relatively fragmented, and there is no controlling shareholder or actual controller before and after the Issuance. The Issuance will not result in any change to the control of the Company.

Before the Issuance, Shenergy Group as the first largest shareholder of the Company holds in aggregate 1,537,522,400 A shares of the Company, representing 24.74% of total share capital of the Company. The number of shares under the Issuance shall not be more than 800,000,000 shares. Based on the high end of 800,000,000 shares under the Issuance and 230,000,000 shares to be subscribed by Shenergy Group, the proportion of shares held by Shenergy Group of the total share capital after the Issuance shall be adjusted to 25.19%, thus it shall remain the first largest shareholder of the Company.

VII. Procedures on Submitting the Plan for the Issuance to Competent Authorities for Approval

The plan for the Non-public Issuance of A Shares has been considered and approved at the twenty sixth meeting of the third session of the Board convened on February 28, 2017. Pursuant to relevant requirements, the plan for the Issuance is subject to the consideration and approval at the shareholders' general meetings, A Shareholders' Class Meeting and H Shareholders' Class Meeting.

Upon consideration and approval at the shareholders' general meetings, A Shareholders' Class Meeting and H Shareholders' Class Meeting of the Company, the Company has to apply for approval from CSRC according to the requirements of relevant laws, regulations and regulatory documents including the Securities Law, the Company Law, the Administrative Measures on Securities Issuance by Listed Company (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) (Revised in 2017). Upon approval by CSRC, the Company will apply to Shanghai Stock Exchange and China Securities Depository and Clearing Corporation Limited Shanghai Branch for handling matters in relation to share issuance and listing, and will complete all approval procedures for the Non-public Issuance.

SECTION II BASIC INFORMATION OF TARGETS OF THE ISSUANCE AND THE CONDITIONAL SHARE SUBSCRIPTION AGREEMENT

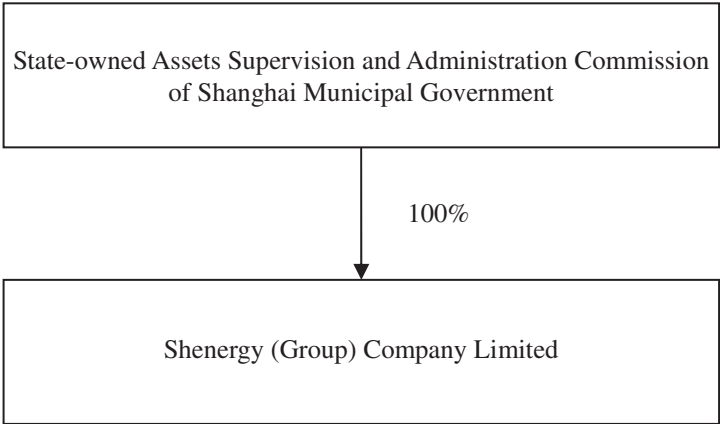
Target investors of the Issuance shall be not more than ten (including ten) specific targets, including Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group. Other than Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group, target investors include securities investment fund management companies, securities companies, financial companies, asset management companies, insurance institutions, trust investment companies, qualified foreign institutional investors and other institutional investors approved by the CSRC and natural persons. A securities investment fund management company subscribes for the Shares through two or more funds under its management will be regarded as one subscriber. Trust investment companies may only subscribe with their own funds.

I. Basic Information of Target Investors**(I) Shenergy Group***1. Basic information*

Name	Shenergy (Group) Company Limited
Address	No.159 Hongjing Road, Minhang District, Shanghai
Registered capital	RMB10 billion
Legal representative	王堅

Type of corporation	Joint stock limited liability (wholly state-owned)
Date of incorporation	November 18, 1996
Scope of business	Engaging in investment, development and management in power and energy based industries, investment in natural gas resources and urban gas networks, investment management in real estate and advanced technology industries, industrial investment, as well as management and operation of its assets and domestic trade (excluding specially regulated items). 【Items required approval according to law shall only commence operation after obtaining approvals from related departments】

2. Relationship between target investors and its controlling shareholders and de facto controllers



3. Principal business

Shenergy (Group) Company Limited is a state-owned enterprise wholly owned by the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government. Shenergy Electric Power Company, its former, was established in 1987 and set up its group of company in 1996, with registered capital of RMB10 billion. Its scope of business includes: Engaging in investment, development and management in power and energy based industries, investment in natural gas resources and urban gas networks, investment management in real estate and advanced technology industries, industrial investment, as well as management and operation of its assets and domestic trade.

4. *Development and operating results of its principal business in the last three years*

In recent years, the installed capacity and power capacity of the company have been increasing steadily and continually, and its gas business has been expanding gradually, generating more revenue to the company continually. Also, the company has sound financial assets and a clear and effective financing network. As at the end of 2015, Shenergy Co., Ltd. (SH.600642) and Shanghai Gas (Group) Co., Ltd. became the controlling subsidiaries of Shenergy Group, basically establishing a development framework of “dual development of electricity and gas, combination of asset and financial measures”.

5. *Summary of financial statement for the latest year*

Unit: RMB'0000

Item	December 31, 2015/ Year 2015
Total assets	14,579,503.04
Total liabilities	4,737,518.13
Total interest of equity holders	9,841,984.91
Operating income	3,278,679.59
Operating profit	560,368.90
Total profit	574,872.96
Net profit	453,586.88

Note: December 31, 2015/2015 annual financial data was audited by Zhonghua Certified Public Accountants LLP.

6. *Administration penalty, criminal penalty, civil litigation and arbitration in the last five years*

Shenergy Group and its directors, supervisors and senior management have not been subject to any administration penalty (excluding those apparently unrelated to stock market), criminal penalty nor involved in any material civil litigation or arbitration related to economic disputes in the last five years.

Shenergy Group has issued a “Statement and Undertaking” and undertaken that “as at the date hereof, the Company has no outstanding or foreseeable material litigation, arbitration or administration penalty.”

7. *Horizontal competition and connected transaction*

(1) Horizontal competition

Upon the completion of the Issuance, no business of Shenergy Group and its controlling shareholders and de facto controllers will compete or is likely to compete with the Company’s business.

(2) Connected transaction

The Company has made full disclosure of its existing connected parties, relationship and connected transaction in its regular reports and temporary announcements. All connected transactions are entered into for its operation needs with compensations, according to the actual situation and based on fair principles of the market. Considerations of the connected transactions are fair and do not deviate from comparable market prices and the connected transactions have undertaken all necessary procedures. The connected transactions do not affect the independence of the operation of the listed company, and do not have significant influences to the normal operation and continuing operation of the Company, without prejudice to the interests of the Company and small and medium shareholders.

As Shenergy Group is the largest shareholder, the Issuance constitutes a connected transaction of the Company. Upon the completion of the Issuance, there will be no change in the business relationship between Shenergy Group and the Company. Any connected transaction entered into between Shenergy Group and the Company will strictly comply with related laws, regulations, regulating documents and internal management system of the Company.

8. *Major transaction between target investor and the Company during the 24 months immediately before the disclosure of the Proposal*

During the 24 months immediately before the disclosure of the Proposal, all major transactions entered into between Shenergy Group, its controlling shareholders and de facto controllers and the Company were disclosed and announced.

(II) *Shanghai Haiyan Investment*

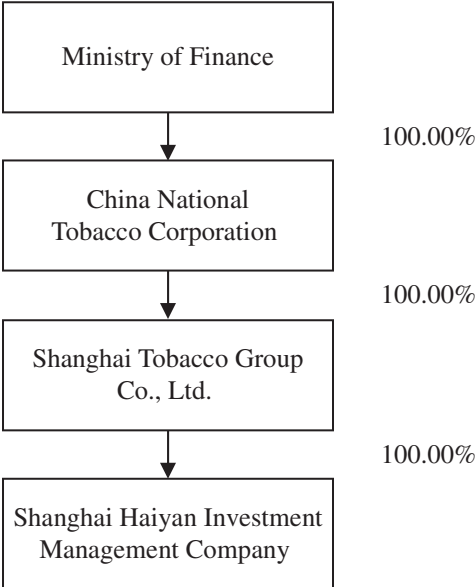
1. *Basic information*

Name	Shanghai Haiyan Investment Management Company Limited
Address	Room 318, Building 3, No. 717 Changyang Road, Yangpu District, Shanghai
Registered capital	RMB3.3 billion
Legal representative	陳宣民
Type of enterprise	Joint stock limited liability (legal person sole investment)
Date of incorporation	October 15, 2009

Scope of business

Industrial investment (excluding equity investment and its management), investment management (excluding equity investment and its management), engineering project management, asset management (excluding equity investment and its management), enterprise management and consultation (forbidden to engaging in agency), and domestic trade (excluding specially regulated items) 【Items required approval according to law shall only commence operation after obtaining approvals from related departments】

2. Relationship between target investor and its controlling shareholders and de facto controllers



3. Principal business

Shanghai Haiyan Investment Management Company Limited is a wholly-owned subsidiary of Shanghai Tobacco Group Co., Ltd., with the Ministry of Finance as its de facto controller. Shanghai Haiyan Investment was established on October 15, 2009. Its scope of business includes Industrial investment (excluding equity investment and its management), investment management (excluding equity investment and its management), engineering project management, asset management (excluding equity investment and its management), enterprise management and consultation (forbidden to engaging in agency), and domestic trade (excluding specially regulated items).

4. *Development and operating results of its principal business in the last three years*

Shanghai Haiyan Investment wholly owns Shanghai Haiyan Tobacco Chain Shops Management Limited* (上海海煙煙行連鎖企業管理有限公司), Shanghai Tobacco Group Real Estate Development And Operation Company* (上海煙草房地產開發經營公司) and other subsidiaries. In recent years, Shanghai Haiyan Investment has actively developed its investment business in financial sector and holds shares in China Pacific Property Insurance Co., Ltd., China Pacific Life Insurance Co., Ltd. and 東方證券股份有限公司.

5. *Summary of financial statement for the latest year*

Unit: RMB'0000

Item	December 31, 2015/ Year 2015
Total assets	4,004,043.23
Total liabilities	685,622.98
Total interest of equity holders	3,318,420.24
Operating income	65,296.88
Operating profit	70,828.61
Total profit	71,763.41
Net profit	70,086.94

Note: December 31, 2015/2015 annual financial data was audited by BDO China Shu Lun Pan Certified Public Accountants LLP.

6. *Administration penalty, criminal penalty, civil litigation and arbitration in the last five years*

Shanghai Haiyan Investment and its directors, supervisors and senior management have not been subject to any administration penalty (excluding those apparently unrelated to stock market), criminal penalty nor involved in any material civil litigation or arbitration related to economic disputes in the last five years.

Shanghai Haiyan Investment has issued a “Statement and Undertaking” and undertaken that “as at the date hereof, the Company has no outstanding or foreseeable material litigation, arbitration or administration penalty.”

7. *Horizontal competition and connected transaction*

Upon the completion of the Issuance, no business of Shanghai Haiyan Investment and its controlling shareholders and de facto controllers will compete or is likely to compete with the Company’s business. As Shanghai Haiyan Investment is a related legal person of the Company, the Issuance constitutes a connected transaction of the Company. Upon the completion of the Issuance, there will be no change in the business relationship between Shanghai Haiyan

Investment and the Company. Any connected transaction entered into between Shanghai Haiyan Investment and the Company will strictly comply with related laws, regulations, regulating documents and internal management system of the Company.

8. *Major transaction between target investor and the Company during the 24 months immediately before the disclosure of the Proposal*

During the 24 months immediately before the disclosure of the Proposal, all major transactions entered into between Shanghai Haiyan Investment, its controlling shareholders and de facto controllers and the Company were disclosed and announced.

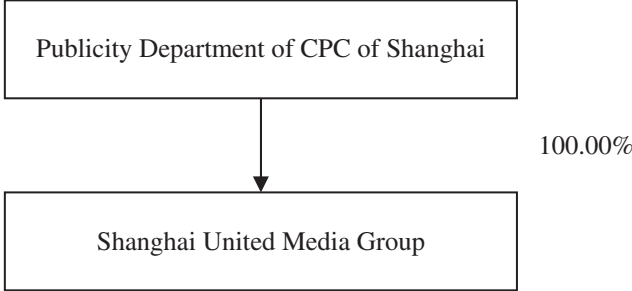
(III) Shanghai United Media Group

1. *Basic information*

Name	Shanghai United Media Group
Address	No. 4855 Dushi Road, Minhang District, Shanghai
Preliminary expenses	RMB49.1 million
Legal representative	裘新
Type of enterprise	Legal person of public institution
Date of incorporation	October 24, 2013
Scope of business	Publication of newspapers and magazines including Jiefang Daily, Zhibu Shenghuo, Baokanwenzhai* (報刊文摘) and Shanghai Novel* (上海小說), publication of online newspapers, online magazines and publications of mobile advices

According to a reply from the State-owned Assets Supervision and Administration Commission of the State Council issued on October 14, 2016 (Guo Zi Chan Quan [2016] No 1135), Wenhui-Xinmin United Press Group would transfer its 246,878,206 A Shares of DFZQ, representing 3.97% of total share capital of DFZQ, in nil consideration to Shanghai United Media Group. On November 29, 2016, the registration of the transfer was completed in China Securities Depository and Clearing Corporation Limited.

2. Relationship between target investor and its controlling shareholders and de facto controllers



3. Principal business

Shanghai United Media Group is organized by the Publicity Department of CPC of Shanghai Municipal Government, with an aim and scope of business include: publication of newspapers and magazines including Jiefang Daily, Zhibu Shenghuo, Baokanwenzhai* (報刊文摘) and Shanghai Novel* (上海小說), publication of online newspapers, online magazines and publications of mobile advices.

4. Development and operating results of its principal business in the last three years

Shanghai United Media Group was established in October 2013 through the merger of Jiefang Daily Group and Wenhui-Xinmin United Press Group. Currently, Shanghai United Media Group oversees a total of 32 publications, including 9 daily newspapers: Jiefang Daily, Wen Hui Bao, Xinmin Evening News, Shanghai Daily, Shanghai Morning Post, Oriental Morning Post and others; 16 weekly magazines: Shenjiang Service Guidelines* (申江服務導報), Xinmin Weekly, Waitan Pictorial Magazine* (外灘畫報) and others, 7 monthly magazines: Zhibu Shenghuo, Shanghai Journalism Review and others, 2 publishing houses, 10 websites with news publications, 18 Applications and more than 50 WeChat accounts.

5. *Summary of financial statement for the latest year*

Unit: RMB'0000

Item	December 31, 2015/ Year 2015
Total assets	2,796,724.07
Total liabilities	1,300,492.59
Total interest of equity holders	1,496,231.48
Operating income	400,528.50
Operating profit	-38,795.03
Total profit	11,719.82
Net profit	1,054.18

Note: December 31, 2015/2015 annual financial data was audited by Baker Tilly China Certified Public Accountants.

6. *Administration penalty, criminal penalty, civil litigation and arbitration in the last five years*

Shanghai United Media Group and its directors, supervisors and senior management have not been subject to any administration penalty (excluding those apparently unrelated to stock market), criminal penalty nor involved in any material civil litigation or arbitration related to economic disputes in the last five years.

Shanghai United Media Group has issued a “Statement and Undertaking” and undertaken that “as at the date hereof, the Company has no outstanding or foreseeable material litigation, arbitration or administration penalty.”

7. *Horizontal competition and connected transaction*

Upon the completion of the Issuance, no business of Shanghai United Media Group and its controlling shareholders and de facto controllers will compete or is likely to compete with the Company’s business. As Shanghai United Media Group is a related legal person of the Company, the Issuance constitutes a connected transaction of the Company. Upon the completion of the Issuance, there will be no change in the business relationship between Shanghai United Media Group and the Company. Any connected transaction entered into between Shanghai United Media Group and the Company will strictly comply with related laws, regulations, regulating documents and internal management system of the Company.

8. *Major transaction between target investor and the Company during the 24 months immediately before the disclosure of the Proposal*

During the 24 months immediately before the disclosure of the Proposal, all major transactions entered into between Shanghai United Media Group, its controlling shareholders and de facto controllers and the Company were disclosed and announced.

II. Summary of the Conditional Share Purchase Agreement

The Company signed the Conditional Share Purchase Agreement with Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group on February 13, 2017. Extracts of it are as follows:

(I) Parties

Party A (Subscriber):	Shenergy Group, Shanghai Haiyan Investment, Shanghai United Media Group
Party B (Issuer):	DFZQ

(II) Purchase price

According to the Administrative Measures on Securities Issuance by Listed Company (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則上市公司非公開發行股票實施細則》) (Revised in 2017), the Pricing Base Date of the Issuance shall be the first day of the offering period of the A Shares under the Proposed Non-public Issuance of A Shares. The price for the Issuance Share shall not be less than 90% of the average trading price of A Shares over the 20 trading days immediately before the Pricing Base Date. Average trading price of A Shares over the 20 trading days immediately before the Pricing Base Date = total trading amount of A Shares over the 20 trading days immediately before the Pricing Base Date/total trading volume of A Shares over the 20 trading days immediately before the Pricing Base Date.

In the event that there is any ex-dividend or ex-right adjustment on A Shares during the period from the Pricing Base Date to the date of issue under the Issuance of DFZQ as a result of distribution of dividends, issue of bonus shares or capitalization issue, the issue price under the Issuance shall be adjusted accordingly.

(III) Number of shares to be purchased

DFZQ intends to issue RMB denominated ordinary shares (A Shares) with par value of RMB1.00 per Share, by way of Non-public issuance, with number of issued shares not exceeding 800,000,000 Shares, where Shenergy Group agrees to subscribe the Shares of DFZQ in the Non-public Issuance as one of the target investors and intends to subscribe for not less than 200,000,000 Shares and not more than 230,000,000 Shares in the Non-public Issuance, Shanghai Haiyan Investment agrees to subscribe the Shares of DFZQ in the Non-public Issuance as one of the target investors and intends to subscribe for not more than 120,000,000 Shares (not exceeding RMB1.8 billion) in the Non-public Issuance, and Shanghai United Media Group agrees to subscribe the Shares of DFZQ in the Non-public Issuance as one of the target investors and intends to subscribe for not more than 50,000,000 Shares (not exceeding RMB750 million) in the Non-public Issuance.

In the event that there is any ex-dividend or ex-right adjustment on A Shares during the period from the Board's resolution date to the date of issue under the Non-public Issuance of DFZQ as a result of distribution of dividends, issue of bonus shares or capitalization issue, the number of shares to be issued and the number of shares to be subscribed by Party A in the Non-public Issuance shall be adjusted accordingly.

Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group will subscribe shares in the Non-public Issuance of DFZQ in cash. Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group have undertaken that their sources of fund used in subscription and their ways of subscription are in compliance with laws and regulations.

(IV) Time and way of payment for subscription amount

Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group have agreed that they would transfer all their subscription amount in a lump sum cash to an account specially opened by the sponsor for the Issuance, according to the notice of payment issued by the Issuer and the sponsor of the Issuance. The subscription amount, after verification procedures and deducting related fees, will transfer to the account specially opened for the Issuance by the Issuer.

(V) Lock-up period

1. Upon the completion of the Issuance:

The Shares subscribed by Shenergy Group in the Issuance shall be locked up for 48 months from the date of completion of the Issuance;

If Shanghai Haiyan Investment holds more than 5% (including 5%) of the Shares of the Company upon the completion of the Issuance, the Shares subscribed by it in the Issuance shall be locked up for 48 months from the date of completion of the Issuance; If it holds less than 5% of the Shares of the Company upon the completion of the Issuance, the Shares subscribed by it in the Issuance shall be locked up for 36 months from the date of completion of the Issuance;

The shares subscribed by Shanghai United Media Group in the Issuance shall be locked up for 36 months from the date of completion of Issue.

2. Shenergy Group, Shanghai Haiyan Investment and Shanghai United Media Group shall issue their letters of undertaking and carry out the formalities of shares lock-up for the Non-public Issuance according to the related laws and regulations and requirements of CSRC, Shanghai Stock Exchange and DFZQ.

(VI) Conditions and effective time of the agreement

The Agreement will be effective upon the signature by both parties and the fulfillment of all the following conditions:

1. The Board, the general meetings of shareholders (including general meetings, A Shareholders' class meetings and H Shareholders' class meetings) of DFZQ will review and approve all matters related to the Issuance (including but not limited to the review and approval of the Agreement and all related/connected transactions underneath by related/connected shareholders of DFZQ).
2. Department of Fund and Intermediary Supervision of CSRC have no objection to the application of the Non-public Issuance of A Shares by DFZQ, and agree on the change of registration of registered capital involved in the Non-public Issuance of DFZQ and other matters.
3. CSRC approves the Issuance.
4. Shanghai Haiyan Investment needs the approval from Department of Fund and Intermediary Supervision of CSRC to become a shareholder holding more than 5% of equity interest of DFZQ.
5. Upon the abovementioned conditions are fulfilled, the date of fulfillment of the last condition becomes the effective date of the Agreement.

(VII) Breach of agreement

Upon the signature of the Agreement, both parties shall strictly comply with it. If any party fails to fulfill its liability of the Agreement, the breaching party shall be held responsible and have to compensate for any loss suffered by the other party due to the violation of the Agreement.

If the Issuance of the Agreement does not obtain (1) approvals from the Board, the general meeting, A Shareholders class meeting or H Shareholders class meeting; or (2) approvals from CSRC, it shall not constitute as a breach of agreement by DFZQ.

If it is through force majeure not attributable to either party that the Agreement cannot be performed fully or partly, neither party shall be treated as breaching the Agreement but shall take all necessary remedies as applicable to minimize the loss caused by force majeure. The party encountering force majeure shall notice the other party of the default in written form as soon as possible and take all necessary measures to stop the expansion of force majeure. Also the party encountering force majeure shall submit a report explaining reasons of default in fulfilling the Agreement fully or partly and reasons of extending the fulfillment, within fifteen days after the force majeure.

SECTION III FEASIBILITY ANALYSIS OF THE USE OF PROCEEDS FROM THE ISSUANCE

I. Use Plan of Proceeds from the Non-public Issuance

*(I) Supporting brokerage and securities financing business development**1. Further improving the securities financing service capacity*

The Company provides securities financing business to clients including margin financing, securities repurchase and collateralized stock repurchase. Securities financing business has the characteristics of controllable risk and stable income, which is significant for optimizing the income structure, enhancing the profitability, perfecting the financial services, integrating the customer resources and improving the profit model of the Company. Currently, securities financing business has become the new profit growth drive of the Company, enlarging its business scale. The above securities financing businesses are all capital-consumption business, as such, the Company intends to further expand investment and replenish its capital base to promote the continuing and rapid development of margin financing, securities repurchase, collateralized stock repurchase as well as other capital intermediary business.

2. Promoting the transformation and development of the wealth management business of the Company

Facing the change in the industry and market, the Company constantly deepens its strategic transformation, and actively advances the switch to wealth management business from traditional brokerage business: on the one hand, expand network scope through setting up new branches or acquisition of branches to form a solid and reasonable marketing branch network, among which, the Company has been approved to set up 33 new securities branches in 2016, upon the completion of which the total number of branches will amount to 153; on the other hand, continue to optimize the marketing strategy of each branch to improve the comprehensive service capacity. Currently, the brokerage business of the Company does not realize desirable income, nor occupy outstanding market share, with insufficient branches and fairly unreasonable branch network, which all require urgent improvement. After the completion of the Non-public Issuance, the Company will further promote the transformation and development of the wealth management business of the Company, and carry out periodic special training on wealth management skills, basic business and business of the branch for the receptionists of the branches, which will lay a foundation for the market scope expansion and profit growth of the wealth management business.

(II) Investing in securities sales and trading business development

From the perspective of the industry situation, the loosening of investment business related policies gradually creates a sound environment for the development of proprietary business. The overall scale of proprietary investment in securities industry has increased since 2012.

1. Continuing to develop the fixed income proprietary business

From the perspective of the scale of fixed income proprietary securities business, due to its relatively stable income rate, the risk of fixed income securities investment is also relatively low. With the accumulation of net capital of securities companies and the development of bonds market, the bonds investment business of securities companies has developed rapidly. During the reporting period, the scale of bonds investment business of the Company was also greatly increased. The Company intends to further expand the investment scale of proprietary securities business through replenishing its net capital subject to risks under control, so as to maintain and display the advantage of the Company in proprietary investment business and improve the profitability of the Company.

2. Investing greater resources in market neutral investment strategy

Currently, the Company has made obvious progress in financial derivatives business, funds market-making, stock index multiple strategies hedging business aspects. In addition, in recent years, the Company has established and expanded its fixed income investment team and quantitative investment team, who manage equity stock investment positions by utilizing stock index futures, and fully or partially hedge the risk of holding investment mix, such that the financial derivatives business develops rapidly. Through the proceeds from the Non-public Issuance, the Company will further advance the development of derivatives business, and speed up developing the business scope based on non-stock index futures derivatives including goods futures, as well as actively explore to develop the market neutral investment strategy into precious metals, foreign exchanges and other investment category, so as to enrich the field of quantitative business.

3. Further developing NEEQ market-making business

The Company is one of the first securities firms registered with NEEQ Company and is permitted to conduct business as a market maker on June 20, 2014. The Company strengthens its management of NEEQ market-making business and optimizes its investment portfolio, and strives to maintain its top ranking in market-making transaction volume, through adhering to its strategy of premium market-making and overweight in selective names. As at the end of June 2016, the Company participated in the market-making of 147 companies and recorded a balance of RMB2.93 billion, representing an increase of 42.3% as compared with the corresponding period of last year. Among the listed companies the Company invested, 58% of them were listed as innovative companies, accounting for 75% of the market capitalization. The Company tries to constantly expand investment in market-making of premium NEEQ-listed companies. As NEEQ

market-making business is among capital intermediary business, which requires own capital to provide liquidity support to the market, the Company intends to utilize partial proceeds from the Non-public Issuance to speed up developing NEEQ market-making business.

(III) Improving investment management service capacity

1. Strengthening active management capacity of asset management business

The Company provides a complete product line of asset management business including collective asset management, designated asset management, special asset management and public-raising securities investment funds through Orient Assets Management, a wholly-owned subsidiary of the Company. Based on its own advantage, the asset management business the Company maintains an active management strategy, such that in recent years, its business scope has been rapidly expanded, and its income level has been keeping its leading position among the industry. The Company also successfully established its fixed income team, structure and alternative financial team. Through the Non-public Issuance, the Company intends to expand investment in the asset management business conducted by Orient Assets Management, and consolidate its core competitiveness in equity investment and research, enhance research strength in offshore capital market, continue to improve building of fixed income team, expand research in structured products field so as to keep its leading position among the industry.

2. Maintaining rapid growth of mutual fund management business

The Company conducts fund management business through China Universal, a joint enterprise who is the largest shareholder of the Company holding 35.41% of the Shares. China Universal enjoys a good reputation in the industry, with enlarging scale of asset management and steady growth in social security scale, growing along with the asset management scale of its subsidiaries. Through the Non-public Issuance, the Company intends to expand investment in mutual funds management business conducted by China Universal, and to keep its leading position in the field of mutual funds management as well as a sound market reputation.

3. Expanding investment in direct investment and private equity business

The Company conducts direct investment business through Orient Capital, a wholly-owned subsidiary of the Company, and enters into private equity fund management business through this subsidiary. Orient Capital was established on February 8, 2010. In recent years, direct investment business has actively developed merger business and overseas investment, which contributes to its breakthrough progress in the business scope and management scope. The Company intends to expand the scope of direct investment and private equity business, such as setting up seed funds to cultivate the small and medium asset management institutions which are still at initial stage or growing stage, excavating investment objectives with strong development potential and value, providing products creation, design and incubation service for them through its platform strategy to constantly cultivate the development of private equity institutions.

(IV) Expanding innovative business field***1. Expanding investment in FICC, OTC business, internet finance, and internationalized business***

The Company actively arranges FICC business, and its gold business has formed three segments of investment, lending and gold-linked products. Joining hands with Orient Hong Kong, the Company has obtained the International Membership Qualification (Class A), as well as the approval to conduct the international gold proprietary business and agency business. Derivatives trading business actively responds to the external impact, positively expands diversification and revenue, strongly develops OTC derivatives business, and designs products based on the needs of clients. On-exchange option, funds market-making business is steadily conducted while market-making efficiency and income are increased, and conducts gold arbitrage trading as well. In December 2014, the Company received the Letter of Approving Conducting Internet Securities Business Pilot (Zhong Zheng Xie Han [2014] No.814) ((《關於同意開展互聯網證券業務試點的函》(中證協函[2014]814號)) by the Securities Association of China and obtained the approval of conducting internet securities business pilot. In addition, after the listing of the H Shares of the Company, the Company fully develops international business layout, and further strengthens global assets distribution. Through this Issue, the Company will continue to expand investment in FICC, OTC business, internet finance, and international business.

2. Expanding investment in building internet platform, trading and information system

Information system is the carrier of the whole securities market, which is significant for the healthy development of securities market, protecting investors' equity, and improving the market competitiveness. The Company needs to expand investment and support in building information technical system to develop the special and large proprietary business of sales and wealth management business, as well as develop internet finance business. By making use of the proceeds from this Issue, the Company intends to continue the upgrading, transformation and optimization of trading and information technical system so as to provide strong technical support to each business development of the Company.

(V) Advancing collectivized development strategy of the Company

The collectivized development of the Company has rapidly developed, managing domestic subsidiaries including Orient Futures, Orient Assets Management, Orient Capital, Orient Innovation Investment, Citi Orient, and also holding shares of China Universal and Great Wall Fund Management Co., Ltd. The Company will expand investment in the above subsidiaries based on the business development needs to help them expand and consolidate, as well as to create first-class professional securities subsidiaries. In recent years, the Company has also constantly sped up its internationalization process by holding business licenses of securities, consultancy, futures, asset management, provision of financial financing and investment banking in Hong Kong, as well as conducting multiple fields in financial business including securities trading, financing, securities underwriting, asset management through Orient Finance Holdings (Hong Kong) Limited. The Company will further advance its collectivized development strategy, and fully display the synergy of domestic and overseas business, as well as provide diversified, professional and integral financial products and financial services to domestic and overseas clients, and finally create higher value for its shareholders.

(VI) Working capital and other general corporate purposes

With the deepened development of capital market and the speedy development industry innovation, securities industry will embrace huge development potential in the future. Under the strong support from regulatory authority, there will be more innovative business and innovative products. The Company will closely focus on the changes in regulatory policies and market condition, and appropriately promote the development of each innovative business by utilizing the proceeds from the Issuance. In addition, with the rapid development of securities industry, the industry will face a new round of integration, and then enter into a speedy and expanding large-scale operation stage. The Company will utilize the proceeds from the Issuance to make funds preparation for the future potential merger opportunities.

II. Necessity of the Non-public Issuance*(I) Enhancing capital strength to relieve net capital bottle-neck*

In recent years, CSRC has formulated many regulatory documents including the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》), the Regulation on the Calculation Standard of the Risk Capital Preparation of Securities Companies (《關於證券公司風險資本準備計算標準的規定》), as well as the Regulation on the Calculation Standard of the Net Capital of Securities Companies (《關於調整證券公司淨資本計算標準的規定》), and has adopted an industry regulation and risk prevention system centering on net capital, so the business scope securities companies could get involved in and their operation scale have directly been linked with their net capital scale. With the intensifying competition among traditional business as well as the rapid increase of innovative business, the overall industry leverage ratio is increased. As securities industry is a capital intensive industry, capital scale of a securities company plays an important role in its market status, profitability, risk prevention capacity as well as its comprehensive competitiveness. Sufficient capital base will provide strong support for a securities company to expand its business scope and optimize its profit model.

Pursuant to the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) revised by CSRC in June 2016, securities companies are required to meet the following risk control index standards: (1) risk coverage ratio shall not be lower than 100%; (2) capital leverage ratio shall not be lower than 8%; (3) liquidity coverage ratio shall not be lower than 100%; (4) net steady capital ratio shall not be lower than 100%. Since 2015, however, the capital consumption business of the Company including margin financing, securities repurchase and collateralized stock repurchase has developed rapidly, so the leverage ratio has been greatly increased. Unless rapidly replenishing capital base, the business development scale will be restricted by the above risk control indexes. Thus the Company is in urgent need to rapidly replenish its net capital through this Non-public issuance so as to provide support to expand and consolidate each business.

(II) Enhancing capital strength to improve comprehensive competitiveness

Pursuant to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》), CSRC has classified and rated securities companies based on their risk management capacity and in combination with market competitiveness and their continuous compliance condition (among which, risk management capacity index mainly includes net capital scale and risk control index centering on net capital, while market competitiveness index mainly includes the ranking of each business among the industry). Securities companies which receive rating of Class A will enjoy certain privilege in determining risk control index standard and calculation ratio of risk capital preparation, distributing regulatory resources, applying for additional business category, setting up new operation network, determining the pilot scope and promotion sequence of new business and new products, as well as paying securities investors guaranteed fund proportion. Since 2014, the Company has received rating of Class A Grade AA for three consecutive years. The Company intends to issue this Non-public issuance to expand its net asset scale, increase its net capital and each risk control index centering on net capital, as well as fully lift the ranking of each business among the industry, which is significant for the Company to constantly maintain its position of a Class A Grade AA securities company, maintain its development advantage of each business, obtain innovative business qualification, as well as improve the comprehensive strength.

As at June 30, 2016, the average net asset and average net capital of the top 5 securities companies by industry capital scale is RMB97.798 billion and RMB66.324 billion, respectively. The Company ranks 11th among the industry with a net asset and a net capital of RMB33.438 billion and RMB22.436 billion, respectively. However, there still exists a notable gap as compared with the top 5 securities companies by industry capital scale. In recent two years, securities companies among the same industry have been further increasing their net capital level through refinancing, which greatly challenges the competition status of the Company among the industry. In July 2016, through the successful listing of the H Shares, the Company tapped into the international capital market. Meanwhile, following further opening of domestic capital market, the Company will directly compete with large international securities dealers in capital, technology and service aspects, which imposes higher requirements on the operation scale and capital strength of the Company. Refinancing of appropriate scale will help the Company rapidly increase its own capital strength, narrow the gap between it and the leading domestic securities companies and large international securities companies, speed up development so as to adapt to the development of capital market and fierce future industrial competition environment.

The Company aims to become a modern investment bank who has the domestic first-class core competitiveness and provides comprehensive financial services for clients through adhering to its development philosophy of “client first, professional service, expansion & innovation, harmony & win-win”, constantly deepening its strategic transformation, actively promoting the four transformations of the Company, as well as a driving force of client, talent and innovation, and a guarantee of the principle of comprehensive risk management system and standard operation. The Non-public Issuance will help the Company grow steadily and constantly, and lay a solid foundation for realizing its strategic goals.

(III) Enhancing capital strength to expand innovative business

Under the traditional business model, securities companies have a limited operation business scope, and the homogeneous competition among the industry is rather severe. In recent years, the Company has actively responded to the transformation opportunity in the industry, and constantly carried out various innovative businesses with breakthrough progress, so that its innovative business scope is rapidly broadened, and income structure is constantly improved. In 2015, income from innovative business amounted to RMB4.9 billion, accounting for 28% of the total income as compared with 25% in 2014. The Company has conducted strong innovation-exploring and achieved business breakthrough in the field of internet finance, assets securitization, NEEQ market-making, collateralized stock repurchase, OTC market income receipts, privatization of overseas-listed technology enterprises, forming certain brand effect and first-mover advantage among the industry. Innovative business and related derivatives have now become new profit growth points of the Company.

(IV) Enhancing capital strength to prevent operational risk

With the constant expansion of innovative business scope, the Company is in urgent need to strengthen its liquidity risk management capacity to guarantee a continuing, steady and healthy operation. In December 2016, the Securities Association of China revised the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》), which imposes higher requirements on liquidity risk management of securities companies. Securities companies are required to establish a sound liquidity risk management system, and carry out effective identification, measurement, supervision and control for liquidity risk to timely meet liquidity requirements at a reasonable cost. In addition, keeping a capital scale which matches the business development scale is also beneficial to the Company to better prevent and resolve various risks, including liquidity risk, market risk, credit risk, operational risk and reputation risk arising in the Company's operation.

As at the end of 2014 and the end of 2015, after deducting the account payable to brokerage clients, the gearing ratio of the Company was 78.28% and 78.52%, respectively, which remained at par. Under the circumstance of subsequently completing the listing of A Shares and H Shares, the Company and its subsidiaries kept the financial lever unchanged through bonds issuance, which demonstrated a sound asset and liability management capacity as well as risk control capacity.

As securities industry is a capital intensive industry, the capital scale of a securities company directly determines its risk prevention capacity. The rapid expansion of balance sheet due to capital intermediary business imposes higher requirements on the capital. As such, the Company increases its capital base through the Non-public Issuance of shares, which can help the Company reduce its liquidity risk, optimize capital structure, and finally fully improve its capacity to prevent each systematic risk and non-systematic risk in operational process.

III. Feasibility of the Non-public Issuance

(I) The Non-public Issuance is in compliance with the requirements under the relevant laws, regulations and regulatory documents

Based on the solid corporate governance structure and sound internal control system, the Company has a well-established risk control system with strong risk control capability. The Company has a fine asset quality, sound financial position and sustainable profitability, without any circumstance of equity being severely prejudiced by controlling shareholder or de facto controller and not yet being eliminated, unlawful external guarantee by the listed company and its subsidiaries and not yet being eliminated (as defined under the Article 39 of the Administrative Measures on Securities Issuance by Listed Company (《上市公司證券發行管理辦法》)), and satisfies with the requirements under the laws, regulations and regulatory documents in relation to non-public issuance.

(II) The Non-public Issuance is in line with the national industrial policy orientation

On May 9, 2014, the State Council promulgated the Certain Opinions on Further Promoting the Healthy Growth of Capital Market (《關於進一步推進資本市場健康發展的若干意見》), and recognized the needs to promote the innovation development of intermediaries and encouraged the securities institutions running towards divergent and professional development with own characteristics. Promoting the development of modern investment banks with international competitive advantages, brand influence and system is also important.

The CSRC promulgated the Opinions on Further Promoting Innovation and Development of Securities Institutions (《關於進一步推進證券經營機構創新發展的意見》) on May 13, 2014, which specifies the major tasks and detailed measures for promoting innovation and development of securities institutions from establishing modern investment banks, supporting business and product innovations as well as promoting regulatory transformation aspects, among which it is clearly stated that financing channels shall be broadened to support securities institutions in their equity and debt financing.

According to the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) and its auxiliary rules revised by CSRC in June 2016, it is suggested to combine with the new industry development trend, increase the continuous effectiveness of risk control index through improving net capital and calculation formula of risk capital preparation, perfecting leverage ratio and liquidity regulation index, as well as clarifying the counter-cyclical adjustment mechanism so as to promote the continuing, steady and healthy development of securities companies.

In recent years, with the revision and improvement of Securities Law, gradual adjustment of regulatory policies as well as the gradual deepening of regulatory approach centering on net capital regulation, policies have been being introduced to support securities companies to improve their profit model, enhance risk control, broaden financing channels, increase the proportion of direct financing, and encourage securities companies to further replenish their capital. With the rapid increase of the existing business scale and flying expansion of innovative business of the Company, the capital scale no longer fulfills the business needs of the Company, and thus, the Non-public Issuance of the Company is a following of the measures by the CSRC to encourage securities companies to further replenish their capital, and is in line with the national industrial policies orientation.

**SECTION IV DISCUSSION AND ANALYSIS OF THE BOARD ON IMPACTS OF THE
ISSUANCE TO THE COMPANY****I. Changes in the Company's Business, Articles of Association, Shareholding Structure, Senior Management and Business Revenue Structure**

The current business scope of the Company includes: securities brokerage; margin financing and securities lending; securities investment advisory; financial consultancy in relation to securities transactions and securities investment activities; securities proprietary trading; distribution of securities investment funds; provision of intermediary and referral business for futures companies; distribution of financial products; securities underwriting business (limited to government bonds, financial bonds of policy banks, short-term financing bills and medium-term notes); stock and options market making business.

Impacts of the Non-public Issuance to the Company's business, Articles of Association, shareholding structure, senior management and business revenue structure are as follows:

1. No material change in the Company's business, senior management and business revenue structure due to the Issuance.
2. Upon the completion of the Non-public Issuance, the registered capital and the total number of Shares of the Company will change and the Company will make necessary amendments to the Articles of Association to reflect the result of the Non-public Issuance.
3. There may be changes in the Company's shareholding caused by the Non-public Issuance, leading to a decrease in shareholding of the existing shareholders, which, however, will not affect the listing conditions regarding to shareholding of the Company.

II. Changes in the Company's Financial Position, Profitability and Cash Flows After the Issuance

Upon the completion of the Non-public Issuance, the equity capital of the Company will be replenished. Its total assets and net liabilities will increase accordingly while its gearing ratio will be lower, further optimizing the capital structure and stabilizing the financial structure of the Company.

Under a supervisory system of taking net capital as the core index, the business scale of securities companies is closely related to their scale of net capital, which is a significant factor to evaluate the risk resistance capacity. The scale of net capital of the Company will be expanded rapidly through the Issuance, and thus the development of related business, which will in turn improve the overall profitability and risk resistance capacity of the Company.

Upon the completion of the Issuance, the Company's cash inflows from the Issuance will be significantly increased once the proceeds is available. When the proceeds raised from the Issuance is utilized gradually, the net cash flow generated from the operating activities of the Company will certainly be enhanced in a certain extent.

III. Changes in the Business Relationship, Management Relationship, Connected Transactions and Competition, etc. Between the Company and its Controlling Shareholders and its Affiliates

The shareholding structure of the Company is relatively diversified. The Company does not have controlling shareholders before and after the Issuance. After the completion of the Issuance, there will be no change in the business relationship, management relationship, connected transactions and competition, etc. between the Company and its controlling shareholders and its affiliates due to the Issuance.

IV. No Appropriation of Funds and Assets of the Company by its Controlling Shareholders and its Affiliates nor Guarantee by the Company to its Controlling Shareholder and its Affiliates After the Completion of the Issuance

The Company does not have any controlling shareholder. Before the completion of the Issuance, there was no illegal appropriation of funds and assets of the Company by its major shareholders and affiliates controlled by it nor illegal guarantee by the Company to its major shareholders and affiliates controlled by it.

Abovementioned situations will not be changed by the Non-public Issuance.

V. Liability Structure of the Company Reasonable Or Not, and No Significant Increase of Liabilities (Including Contingent Liabilities) Due to the Issuance, and Reasonable Gearing Ratio and Financial Cost

As at September 30, 2016, the Company's combined gearing ratio (deducting money received for acting as securities trading agent) was 75.63%. Based on the projection of funds raised from the Non-public Issuance with RMB12 billion at the upper end, the Company's combined gearing ratio of after the completion of the Issuance is expected to be 70.58%. The financial condition of the Company will become more steady and sound and its capital structure will be more reasonable while its liabilities (including contingent liabilities) will not increase significantly due to the Issuance.

The Company intends to increase its capital by the proceeds to replenish its operating fund and to expand its business scale once the proceeds of the Issuance is available, while its gearing ratio and financial cost will remain at reasonable level.

VI. Risks Relating to the Issuance

Investors have to consider the following risk factors, other than other information provided in the Proposal, delicately when evaluating the Issuance of the Company:

(I) Unstable operational performance risk due to market variation

The domestic capital market is, to some extent, periodic due to the impact of the overall economic development, macroeconomic policies, international economic environment and investment philosophy. Stagnant overall domestic economic condition and capital market may lead

to decrease in clients' trading volume as well as decrease in market investment and financing activities, which will cause adverse impact on the commission and handling fees income from securities brokerage business, underwriting and sponsoring income from investment banking business, and income from asset management business of the Company. In addition, market downturn may also influence the financial assets as well as investment value and returns of the Company, and lead to decrease in value of trading and investment positions, which will cause unfavorable impact on the Company's income from investment trading business as well as profitability of the Company.

(II) Industry competition risk

In recent years, with the rapid development of the domestic capital market, the competition among securities industry has been increasingly intense. Securities companies have similar business scope and income structure, and securities brokerage, securities proprietary, investment banking traditional business have large proportion of income, and thus the competition among securities companies is homogeneous. In recent years, partial large securities companies have consolidated their capital strength by ways of capital increase or listing. Therefore, the number of their securities branches has been growing rapidly. With the rapid development of internet finance, the market competition has been increasingly fierce. There is little difference between the principle business of the Company and those of other domestic securities companies, which forms direct competition between the Company and other securities companies.

In addition, following the gradual opening of domestic capital market, international securities companies begin to enter into domestic securities market. A batch of world-famous securities companies have gradually entered into China's securities industry by ways of forming joint ventures with domestic securities companies, which greatly challenges the domestic securities companies.

Apart from the competition between securities companies, there is still other competition from banks, trust and other financial institutions. The competition field has reached investment and financing service, financial consultant, assets securitization, risk investment field. Such fierce competition may influence the Company's competition status in each business among the industry.

(III) Policies and legal risk

As securities industry is among the national concession industry, regulatory authority will guide the development of securities market and securities industry through certain plans and policies. NPC has promulgated the Company Law and the Securities Law, while the State Council and CSRC have promulgated the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》), the Rules for Governance of Securities Companies (《證券公司治理準則》), the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) and the Provisional Regulations on Compliance Management of Securities Companies (《證券公司合規管理試行規定》). The Company shall carry out brokerage, securities proprietary, investment banking and asset management business under the supervision of the industry regulatory authority such as CSRC, Stock Exchange, and Securities Association, as well as industry self-regulatory organizations. Any violation of the rules under the

relevant laws, regulations and regulatory requirements by the Company in its operational activities may lead to administrative penalties, such as fine, suspension or disqualification of business by regulatory authority.

(IV) Operating risk of business

1. Risk of brokerage business

The Company emphasizes the fundamental work of brokerage business. It strives to expand the market through establishing an operating network, motivating account-opening and asset-introduction, and enhancing its customer service. It also consolidates its competitive advantages by establishing a wealth management platform, enriching its product lines, exploring internet financing business and etc., gaining a sound development momentum for its business. Revenue from brokerage business mainly depends on transaction commission rate and trading volume. Significant drop of stock trading volume subject to market influences, lower securities commission rate subject to intensified competition and insufficient coverage of the network may lead to a decline in brokerage business. With the promulgation of the Provisions on the Supervision of Branch Offices of Securities Companies and the Regulations on Client Account Opening of Securities Companies, the rise of internet financing business model, the full opening of its newly established network, off-site account opening, internet brokerage service and internet consolidated financial business will heavily beat the traditional brokerage business. If the Company fails in implementing a development model transformation and upgrading of its traditional brokerage business, the performance of the Company will be adversely affected.

2. Risk of investment banking business

Investment banking business of the Company is mainly engaged through Citi Orient, its subsidiary, involving sponsorship for securities listing, securities underwriting, securities recommendation and listing, financial advisors for merger and acquisition and financial restructuring, mainly subject to risks of sponsorship and risk of underwriting. When conducting its investment banking business, the Company may be subject to securities regulatory penalties for conducting inadequate due diligence in connection with the truthfulness, accuracy and completeness of information disclosed in prospectus; maybe subject to loss of creditworthiness for unreasonable reform and listing scheme of enterprises leading to wrong judgments on prospects of the enterprises; maybe subject to risk of underwriting for unreasonable pricing of securities issuances, failure of meeting investors' needs for terms design of debentures, deviation in judgement of the market or wrong timing of issuance; and also may be subject to risk of breach or default for inappropriate undertakings made in its operating process.

3. Risk of asset management business

Revenue from asset management business mainly includes management fee and performance reward and fee, among which, management fee is mainly affected by asset scale, management fee rate and term of main products, while performance reward and fee is closely related to repurchase scale and returns of open-ended products.

A continued downward trend of securities market may affect the desire and intention to subscribe and hold wealth management of investors, which in turn will lead to a decrease in the scale of wealth management products and thus a decrease in management fee from asset management business of the Company. A continued downward trend of securities market may also lead to a drop in returns of its products, which in turn will lead to a decrease in the performance reward and fee from asset management fee and thus adversely affect the revenue of asset management business of the Company.

4. *Risk of credit business*

The main credit risk that securities companies are encountering of mainly occurs in the process of providing financing business and securities lending and investment of debentures to the customer by default of the counterparties. In addition, the Company may have to enter into contracts, such as asset purchase contracts and investment agreements, with various economic entities during its operation and management process. Due to the complicated economic relationship in the society and the divergences of counterparties, uncertainties are unavoidable in economic activities and thus few individual defaults may appear, causing certain risks to the Company.

(V) *Financial risk*

The capital intensive characteristics of securities industry requires the Company to keep a sound funds liquidity with diversified financing channels to prevent potential liquidity risk. Currently, the Company has sufficient non-restricted monetary funds, strong debt payment capability, and sound liquidity. However, drastic variation in future market, large-scale losses in investment trading business, or large proportion of underwriting in underwriting business will contribute to liquidity shortage and difficulties in capital turnover, which will cause adverse impact on the financial positions and operation of the Company.

(VI) *Risk of information technology*

The principal business of the Company heavily relies on electronic information system, as large volume of transactions have to be handled accurately and timely and large volume of business and operation data have to be saved and processed. Any breakdown of hardware of the Company's IT system, collapse of software, disruption to connections, computer virus and hacker attack, loss or leak of data and other situations, or any breakdown of its IT system due to failure in improving or upgrading the system in a timely and effectively manner will adversely affect the creditworthiness and service quality of the Company which even will cause economic losses and legal disputes.

Large amount of procedures and routines are involved in securities transaction system. For some complicated or rare IT problems, external professional are in needed for settling problems. Thus, the Company is subject to risk of insufficient support from external vendors of IT system software and hardware. Many banks are involved in the IT system of securities companies but different banks have different level of technology development, maintenance and management and

support and aids given to the Company, which will cause certain difficulties to IT works and thus affect the stability and reliability of the Company's IT system which in turn will be unfavorable to the operation of the Company.

(VII) Risk of loss or lack of talent

Competitive advantages in maintaining talents will be a key for enterprises to stand out in the securities industry. The Company has employed and trained many outstanding talents during its development and expansion, whom have made great contributions to the development of the Company. With the rapid growth of domestic securities industry, talents become rare resources. Although the Company has paid high attention to reward and maintain outstanding talents, and established salary and benefit related policy and incentive scheme based on its principle of 'give clear guidelines, demonstrate differentiation, performance-based incentive scheme, up to market level, and optimize cost spending', there is no guarantee that all outstanding talents could be retained. If the Company loses outstanding talents or is lack of potential candidates, especially for significant business aspects or key positions, the prospect of the Company's continuing development will be adversely affected.

(VIII) Risk of approval of the Non-public Issuance

The implementation of the Non-public Issuance is still subject to the approvals from the general meeting, Class A Shareholders' meeting and Class H Shareholders' meeting, as well as the approval from CSRC. There are uncertainties in obtaining approvals and the timing of obtaining approvals ultimately.

(IX) Risk of amortization of immediate returns

The proceeds from the Non-public Issuance will be used to replenish capital. Once the proceeds from the Non-public Issuance is available, the Company will actively allocate its capital resources, investing the money into all major operations timely and effectively. Normally, immediate returns will be generated once investment is input in the current period. However, if the proceeds from the Non-public Issuance has not been fully utilized during the same year when the Issuance is completed, or the replenished capital has not resulted in expected scale or the current level of profit for the related business development, and the increase of profit for all existing business is not sufficient, then current returns index such as earnings per Share and weighted average net asset return of the Company of that year may be subject to amortization.

SECTION V PROFIT DISTRIBUTION POLICY AND ITS IMPLEMENTATION**I. Formulation and implementation of the policies for profit distribution and cash dividend and their implementations****(I) Formulation of Profit Distribution Policy of the Company**

Having been considered and approved at the first extraordinary shareholders' general meeting of the Company in 2013, 2014 and 2015, the requirements on profit distribution policy of the existing effective Articles of Association of the Company are as follows:

“Article 244 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;
- (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 shareholders' 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 there are requirements on reserve extraction proportions and accumulated extraction balance applicable to statutory reserve fund, general risk reserve fund and transaction risk reserve fund of securities companies as stipulated by the state, the Articles of Association shall be implemented according to the requirements of the state.

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.

No profit shall be distributed in respect of the shares of the Company which are held by the Company.

Article 245 The principle of allocating profits of the Company: adhering to the principle of “the same shares entitled to the same rights and dividend”, the Company allocates profits as per the proportions of shareholding in the Company by its shareholders. 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 policy of profit distribution of the Company is as follows:

1. Forms of profit distribution: 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 shall determine a cash dividend policy that enables the shareholders to share the growth and development results of the Company and receive reasonable investment returns, by considering factors such as its development stage, capital requirements.
2. Specific conditions and proportions of dividends in cash: the Company adopts cash dividend as its priority dividend distribution policy, i.e. the Company shall distribute its dividends in cash when the Company gains profit in that year and 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.
3. Intervals of profit distributions: the Company generally distributes its profit on a yearly basis. Subject to the compliance of the profit distribution principle and cash dividends conditions, the Company may also distribute interim cash dividends.
4. Specific conditions of distributing 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 distribution 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.
5. The Board shall take into account, among other things, features of the industries where the Company operates, its development stage, business model, and profit level and whether it has any significant capital expenditure plans, and formulate differentiated cash dividend proposals in accordance with the provisions set out below and procedures provided in the Articles of Association:
 - (1) If the Company is at the mature stage of development and has no significant capital expenditure plan, the proportion of cash dividends shall be at least 80% in the profit distribution;

- (2) If the Company is at the mature stage of development and has a significant capital expenditure plan, the proportion of cash dividends shall be at least 40% in the profit distribution;
- (3) If the Company is at the growing stage and has a significant capital expenditure plan, the proportion of cash dividends shall be at least 20% in the profit distribution;

If it is difficult to determine the Company's stage of development while it has a significant capital expenditure plan, the profit distribution may be dealt with pursuant to the rules applied in the previous distribution.

Article 246 Decision-making procedures and mechanism of the profit distribution plan are as follows:

- (1) The decision-making procedures of the profit distribution plan

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.

The independent directors may collect opinions from minority shareholders for formulating and putting forward a profit distribution proposal to the Board of the Company for consideration. 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. If profit distribution plan for the current year cannot be decided in compliance with the existing cash dividends policy or as per the minimum proportion of cash dividend, the profit distribution plan shall be passed by more than a half of the voting rights held by shareholders (including their proxies) present at the shareholders' general meeting.

If profit distribution plan for the current year cannot be decided in compliance with the existing cash dividends policy or as per the minimum proportion of cash dividend under special circumstances, the Company shall disclose specific reasons and definite opinions of independent directors in regular reports, and make specific explanation to matters such as use of retained earnings, estimated investment income, etc. Profit distribution plan for the current year shall be passed by more than two thirds of the voting rights held by shareholders (including their proxies) present at the shareholders' general meeting and the shareholders shall be accessible to network voting when attending the shareholders' general meeting to consider such plan.

The Supervisory Committee shall monitor the execution of cash dividend policy and the Shareholders' Return Plan carried out by the Board of Directors, as well as the execution of appropriate decision-making procedures and the information disclosure. The Supervisory Committee shall express explicit opinions and urge the Board to make correction in a timely manner in case of the Board's failure to strictly implement the cash dividend policy and Shareholders' Return Plan, failure to strictly execute appropriate decision-making procedures for cash dividends, and failure to make an authentic, accurate and complete disclosure of the cash dividend policy and its implementation.

(2) The decision-making procedures for the adjustment of the profit distribution policy

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 and 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 Supervisory Committee shall monitor the adjustment of profit distribution policy by the Board of Directors. The Supervisory Committee shall be entitled to request the Board to correct the adjusted profit distribution policy when such adjustment made by the Board damages the interests of minority shareholders, or is inconformity with relevant laws and regulations, and relevant requirements as stipulated by the CSRC and the stock exchanges.

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 more than 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.

Article 247 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.

Article 248 The common reserve funds of the Company shall be applied for making up for losses, expanding the Company's production and operation or capitalization. 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 capitalization shall not be less than 25% of the registered capital of the Company before the capitalization.

Article 249 After the profit distribution plan has been adopted at shareholders' general meeting, the Board shall complete the dividend (or share) distribution within two months after the end of the shareholders' general meeting.

Article 250 The Company may distribute dividends by means of cash or shares. Interests incurred from cash or other amounts involved in the payment of dividends shall not be borne by the Company. When distributing dividends, the Company shall withhold tax payables on the dividend income of the shareholders in accordance with the requirements of relevant laws and regulations.

Article 251 Any amount paid up in advance of calls on any shares may bear interest but shall not entitle the holder of the shares to participate in respect thereof in a dividend subsequently declared.

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 listed foreign 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-listed foreign 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;
- (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 share of the Company is listed, stating its intention to sell such shares, and notify the securities regulatory authority of the place in which the share of the Company is listed of such intention.

Article 252 The Company shall appoint receiving agents on behalf of the holders of overseas-listed foreign shares to receive, on behalf of the relevant shareholders, the dividends declared and all other payables.

The receiving agents appointed by the Company shall be in compliance with the requirements of the local laws or stock exchange at the place where the stock of the Company is listed.

The receiving agents appointed for holders of overseas-listed foreign shares listed in the Hong Kong shall be a trust company registered under the Trustee Ordinance of Hong Kong.”

(II) Shareholders’ Return Plan for the Next Three Years

The Company has formulated the Shareholders’ Return Plan for the Next Three Years (2017-2019) of 東方證券股份有限公司 (《東方證券股份有限公司未來三年股東回報規劃 (2017-2019)》), which has been considered and approved at the twenty fifth meeting of the third session of the Board. The principal information of the plan is as follows:

1. The Company adopts cash dividends as its priority profit distribution policy, i.e. the Company shall distribute its dividends in cash when the Company gains profit in that year and the accumulated undistributed profit is positive and if there is distributable profit 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.
2. The Company shall review the shareholders’ return plan again at least once every three years and finalize the Shareholders’ Return Plan for that period based on its own actual conditions and the opinions from the shareholders (in particular the public investors) and independent directors, and make sure that such return plan will not violate the relevant regulations of the profit distribution policy.
3. Relevant department of the Company shall formulate the plan by combining actual operation of the Company and fully taking into account the profit scale, cash flow condition, development stage and current funds needs of the Company to protect the equity of the shareholders (in particular the minority shareholders). The department shall carry out specific discussion based on the sustainable development of the Company and fully listen to the opinions from the shareholders (in particular the minority shareholders) and independent directors.

(III) Implementation of Profit Distribution and Cash Dividend Distribution of the Company

The 2013 annual general meeting of the Company considered and approved the profit distribution plan of the Company for the year of 2013, pursuant to which: based on the total share capital of 4,281,742,921 shares at December 31, 2013, the Company distributed a cash dividend of RMB1 for every ten shares to all shareholders, totaling a cash dividend of RMB428,174,292.10; the remaining undistributed profit of RMB2,894,712,795.64 has been carried forward to next year. The above-mentioned distribution of dividend has been completed.

The 2014 annual general meeting of the Company considered and approved the profit distribution plan of the Company for the year of 2014, pursuant to which: based on the total share capital of 5,281,742,921 shares upon completion of IPO, the Company distributed a cash dividend of RMB1.5 (including tax) for every ten shares to all shareholders whose names appear on the register on the record date, totaling a cash dividend of RMB792,261,438.15, representing 64.55% of the distributable profit of

the parent company for year 2014 and 33.83% of the net profits attributed to the shareholders of the parent company, and the remaining undistributed profit of the parent company after distribution of RMB3,329,736,489.45 has been carried forward to next year. The above-mentioned distribution of dividend has been completed.

The 2015 annual general meeting of the Company considered and approved the profit distribution plan of the Company for the year of 2015, pursuant to which: a cash dividend of RMB3.50 (inclusive of tax) for every 10 shares has been distributed to all holders of A Shares whose names appeared on the Company's register of A Shares on the record date on the basis of its total A Shares capital of 5,281,742,921 shares, totaling a cash dividend of RMB1,848,610,022.35. Plus an interim profit distribution for the year of 2015 of RMB528,174,292.10, totaling a cash dividend for the full year of RMB2,376,784,314.45, representing 64.78% of the distributable profit of the parent company for the year of 2015 and 32.45% of the net profits attributed to the shareholders of the parent company, and the remaining undistributed profit of the parent company after distribution of RMB4,975,471,871.05 has been carried forward to next year. The above-mentioned distribution of dividend has been completed.

II. Profit Distribution and the Use of Undistributed Profit of the Issuer for the Recent Three Years

(I) Profit Distribution for the Recent Three Years

Distribution of Cash Dividends of the Company for 2013, 2014 and 2015 is as follows:

Unit: RMB'0000

Item	2015	2014	2013
Net profits attributable to the shareholders of the listed company in the consolidated statements for the year of distribution	732,522.45	234,167.12	100,742.19
Amount of cash dividend (including tax)	237,678.43	79,226.14	42,817.43
Proportion of net profits attributable to the shareholders of ordinary shares of the listed company in the consolidated statements	32.45%	33.83%	42.50%
Proportion of accumulated cash dividends to average annual net profits in the recent three years		101.10%	

The Company strictly complies with relevant requirements from CSRC and of Articles of Association, insists on the profit distribution policy focused on cash dividend and combines with its own profitability and cash flow. In order to meet the requirement of sustainable, healthy and steady development of the Company, the Company makes reasonable decisions for profit distribution policy. In recent three years, the proportion of accumulated cash dividends to average annual net profits attributable to the shareholders of the parent company amounted to 101.10%.

(II) The Use of Undistributed Profit for the Recent Three Years

During the reporting period, the undistributed profit of the Company as part of the fund for the Company's business development, shall remain to be used for the operation and development of the Company in order to meet the working capital needs of the Company.

**SECTION VI RISK WARNINGS ON THE DILUTION OF IMMEDIATE RETURNS DUE TO THE
NON-PUBLIC ISSUANCE OF A SHARES AND THE REMEDIAL MEASURES**

According to the requirements under the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legal Interests of Minority Investors in Capital Market (Guo Ban Fa [2013] No.110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)), and the Guiding Opinions on Matters Regarding the Dilution of Immediate Returns Due to Initial Public Offering, Refinancing and Material Assets Restructuring (CSRC Announcement[2015]No.31) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)) by the China Securities Regulatory Commission (hereinafter referred to as the “CSRC”), to guarantee the interests of the minority investors, the Company has conducted detailed analysis on the impact of the Issuance on the dilution of immediate returns, and the detailed analysis and remedial measures to be adopted are as follows:

I. Impact of the Dilution of Immediate Returns Due to the Non-public Issuance on the Principle Financial Indicators of the Company

The total share capital of the Company prior to this Non-public Issuance was 6,215,452,000 shares. The number of shares issued under the Issuance shall not exceed 800,000,000 shares (inclusive). After the completion of the Issuance, the share capital and net capital scale of the Company will be greatly increased.

(I) Principle Assumptions and Prerequisites

1. This Non-public Issuance is estimated to be completed before September 30, 2017, which is only an estimated date for calculating the impact of the dilution of immediate returns due to the Issuance and is subject to the approval by CSRC and the actual completion date of the Issuance.
2. The number of shares to be issued is estimated to be 800,000,000 shares, and the proceeds to be RMB12 billion before issuance expenses.
3. According to the Announcement on Expected Decrease in 2016 Annual Results (Announcement Code: 2017-001) published on January 24, 2017 by the Company, an assumption is made that the net profit attributable to shareholders of parent company in 2016 is 2,319.9644 million, which will decrease by 68.33% as compared with it in 2015. Meanwhile, an assumption is made that the net profit attributable to shareholders of the parent company in 2017 will increase by 10%, remain at par and decrease by 10%, respectively, as compared with those in 2016, then will amount to RMB2,551.9608 million, RMB2,319.9644 million and RMB2,087.968 million, respectively.

According to the Company’s third quarterly report in 2016, the net profit attributable to shareholder of the parent company from January to September 2016 amounted to 1,875.82 million and the net profit after deducting non-occurring profit or loss attributable to shareholders of the parent company of the Company amounted to

RMB1,725.2122 million, the net profit ratio after deducting non-occurring profit or loss attributable to shareholders of the parent company was 91.97%. An assumption is made that the above ratios in 2016 remain at par as compared to those from January to September 2016, then the net profit after deducting non-occurring profit or loss attributable to shareholders of the parent company in 2016 will be 2,133.6967 million. An assumption is made that the net profit after deducting non-occurring profit or loss attributable to shareholders of the parent company in 2017 will increase by 10%, remain at par and decrease by 10%, respectively as compared with those in 2016, then will be 2,347.0664 million, 2,133.6967 million and 1,920.327 million respectively.

The above assumptions on profit do not constitute profit forecasts of the Company. Investors are not advised to make investment decisions based on such assumptions. The Company does not assume responsibility for any losses of investors due to decisions made based on such assumption.

4. According to the Announcement on Expected Decrease in 2016 Annual Results (Announcement Code: 2017-001) published on January 24, 2017 by the Company, an assumption is made that, as at December 31, 2016, the net profit attributable to shareholders of parent company is 40,514.7739 million. The equity attributable to shareholders of the parent company as at December 31, 2017 = opening balance of the equity attributable to shareholders of the parent company in 2017 + the net profit attributable to shareholders of the parent company in 2017 + variation of current equity (if any). An assumption is made that the Company does not distribute any cash dividends in 2017. The above statistics on net assets does not represent the forecasts on net assets of the Company at the end of 2016 and the end of 2017, and is subject to uncertainty.
5. After receiving the proceeds from the Issuance, the impact on the manufacturing and operation, financial positions (such as operating income, financial expenses, investment gains) of the Company has not been taken into consideration.
6. The impact of other factors (other than proceeds raised, net profit and profit distribution) on net assets has not been taken into consideration in estimating the net assets of the Company after the Issuance.

(II) Analysis of Impact on the Earnings per Share and Weighted Average Return on Net Assets of the Company

The impact of the Issuance on the earnings per share and weighted average return on net assets of the Company is set out in the table below:

Item	2016/As at December 31, 2016 (forecasts)	2017/As at December 31, 2017	
		Prior to the Non-public Issuance	After the Non-public Issuance
Total share capital (10,000 shares)	621,545.20	621,545.20	701,545.20
Scenario 1: The net profit attributable to shareholders of the parent company in 2017 increases by 10% as compared with the base number in 2016			
Net profit attributable to shareholders of the parent company (RMB'0000)	231,996.44	255,196.08	255,196.08
Net profit attributable to shareholders of the parent company, net of non-occurring profit or loss (RMB'0000)	213,369.67	234,706.64	234,706.64
Basic earnings per share (RMB/share)	0.41	0.41	0.40
Diluted earnings per share (RMB/share)	0.41	0.41	0.40
Basic earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.38	0.37
Diluted earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.38	0.37
Weighted average return on net assets	6.26%	6.11%	5.70%
Weighted average return on net assets, net of non-occurring profit or loss	5.76%	5.62%	5.24%
Scenario 2: The net profit attributable to shareholders of the parent company in 2017 remains at par as compared with the base number in 2016			
Net profit attributable to shareholders of the parent company (RMB'0000)	231,996.44	231,996.44	231,996.44
Net profit attributable to shareholders of the parent company, net of non-occurring profit or loss (RMB'0000)	213,369.67	213,369.67	213,369.67
Basic earnings per share (RMB/share)	0.41	0.37	0.36
Diluted earnings per share (RMB/share)	0.41	0.37	0.36
Basic earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.34	0.33
Diluted earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.34	0.33
Weighted average return on net assets	6.26%	5.57%	5.19%
Weighted average return on net assets, net of non-occurring profit or loss	5.76%	5.12%	4.78%

Item	2016/As at December 31, 2016 (forecasts)	2017/As at December 31, 2017	
		Prior to the Non-public Issuance	After the Non-public Issuance
Scenario 3: The net profit attributable to shareholders of the parent company in 2017 decreases by 10% as compared with the base number in 2016			
Net profit attributable to shareholders of the parent company (RMB'0000)	231,996.44	208,796.80	208,796.80
Net profit attributable to shareholders of the parent company, net of non-occurring profit or loss (RMB'0000)	213,369.67	192,032.70	192,032.70
Basic earnings per share (RMB/share)	0.41	0.34	0.33
Diluted earnings per share (RMB/share)	0.41	0.34	0.33
Basic earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.31	0.30
Diluted earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.31	0.30
Weighted average return on net assets	6.26%	5.02%	4.69%
Weighted average return on net assets, net of non-occurring profit or loss	5.76%	4.62%	4.31%

Note: Basic earnings per share and weighted average return on net assets are calculated based on the requirements under the Guiding Opinions on Matters Regarding the Dilution of Immediate Returns Due to Initial Public Offering, Refinancing and Material Assets Restructuring (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) and the regulations under the No.9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies – Calculation and Disclosure of Return on Net Assets and EPS (《公開發行證券的公司信息披露編報規則第9號–淨資產收益率和每股收益的計算及披露》) formulated by the China Securities Regulatory Commission.

II. Relationship Between the Projects to be Invested with the Proceeds and the Existing Business of the Company and Preparations Made by the Company in Terms of Personnel, Technology, Market for the Projects to Be Invested with the Proceeds

(I) Relationship Between the Projects to be Invested with the Proceeds and the Existing Business of the Company

The total amount of proceeds from the Issuance shall not exceed RMB12 billion (including issuance expenses). After deducting issuance expenses, the net proceeds will be fully used for replenishing capital base and working capital.

After the completion of the Non-public Issuance, the principle business of the Company remains unchanged. Through the Issuance, the Company will rapidly increase its net capital scale, and drive the development of related business to improve the overall profitability and risk prevention capability of the Company.

(II) Preparations Made by the Company in Terms of Personnel, Technology, Market for the Projects to Be Invested with the Proceeds

The Company is a large comprehensive securities company in China, familiar with domestic securities business with strong market competitiveness, whose business indicators and financial indicators both have a favorable ranking among the industry.

The Company always adheres to its philosophy of “Talents Are the No.1 Resources” and its strategy of “Consolidating the Company Through Talents”. The Company has cultivated a large number of professional backbone strength with strong competitiveness through a well-established personnel-selection system which allows clear separation of powers and duties with reasonable allocation, and gradually deepening the marketing reform of performance management and remuneration incentive system, as well as sticking to the combination of internal excavation and external introduction.

Through fully carrying out securities business of various types, the Company has formed a solid business system and formulated a clear development plan. In recent years, the Company has sped up its development in brokerage business, securities proprietary business, asset management business, investment banking business, credit trading business with good operational effects.

(III) Operation and Development Trend of the Existing Business Segments of the Company

The existing principle business of the Company is securities business. In compliance with the requirements under the laws, regulations and regulatory authority, the Company has steadily carried out securities business, which has a sound development trend. In 2014, 2015, and from January to September 2016, the operating income of the Company amounted to RMB5,499.603 million, RMB15,434.7051 million and RMB4,767.963 million, while the net profit attributable to shareholders of the parent company for the same period was RMB2,341.6712 million, RMB7,325.2245 million and RMB1,875.82 million.

III. Risk Warnings on the Dilution of Immediate Returns Due to the Non-public Issuance of Shares

After receiving the proceeds from the Issuance, the total share capital and net assets of the Company will be correspondingly increased. However, use of proceeds may not derive efficiency until after the operation for a period of time. Under the condition of increase in both the total share capital and net assets of the Company, if future business scope and net profit of the Company do not increase correspondingly, in the short term, earnings per share and weighted average return on net assets of the Company are estimated to decrease to a certain extent, resulting in risks on the dilutive impact on the immediate returns for shareholders after receiving the proceeds from the Issuance. Investors are advised to note such investment risks.

IV. Detailed Remedial Measures against the Dilution of Immediate Returns to Be Adopted by the Company

To reduce the impact of dilution of immediate returns due to the Issuance, the Company undertakes to adopt the following measures:

(I) Optimize income structure to improve continuous profitability

The projects to be invested with the proceeds are based on the principle business of the Company, and are in line with the development strategy of the Company. The implementation of the projects to be invested with the proceeds will help the Company grasp the favorable opportunities of transformation and upgrading of securities industry, further adjust its income structure, increase the income from credit trading, internet finance business, investment banking business, reduce operational risk, and improve its continuous profitability and sustainable development capability.

(II) Expand each business scope and keep appropriate lever level to promote increase in return on net assets

After receiving the proceeds from the Non-public Issuance, the Company will speed up promoting projects to be invested with the proceeds, keep appropriate lever level, utilize the leverage effect of the proceeds to strengthen the debt capacity of the Company, expand assets scale, further increase the traditional business scope including brokerage business, underwriting and sponsoring business, proprietary business, asset management business, as well as increase the innovative business scope including credit trading, internet finance business, so as to further increase the Company's return on net assets to give a better return to the public shareholders.

(III) Standardize management and use of proceeds

To standardize management and use of proceeds as well as protect the interests of investors, the Company has formulated the Administrative System for Proceeds of Orient Securities Company Limited (《東方證券股份有限公司募集資金管理制度》) according to the requirements under the laws, regulations, regulatory documents including the Company Law and the Securities Law, as well as the regulations under the Articles of Association, which lays down detailed rules for deposit of proceeds, use of proceeds, change in use of proceeds, supervision of use of proceeds. The Company will strengthen the management of proceeds, use the proceeds in a reasonable and effective way, and prevent the risk of use of proceeds.

(IV) Further improve profit distribution policy and optimize investment return mechanism

The regulations in relation to profit distribution policy, in particular the specific conditions, ratios, and distribution forms of cash dividends as well as the distribution conditions of dividends by shares under the Articles of Association are in compliance with the requirements under the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies by

the CSRC (《中國證監會關於進一步落實上市公司現金分紅有關事項的通知》) and the Opinions on Further Promoting the IPO System Reform by the CSRC (《中國證監會關於進一步推進新股發行體制改革的意見》).

In 2014 and 2015, Company distributed the profit in strict compliance with the provisions under the relevant laws, regulations and the Articles of Association. The amount of cash dividends (inclusive of tax) was RMB792.2614 million and RMB2,376.7843 million, respectively, which accounted for 33.83% and 32.45% of the net profit attributable to the shareholders of the parent company in the combined statement, respectively.

After the completion of the Issuance, based on the strict execution of the existing dividends distribution policy, the Company will fully take into account future income level, profitability factors to further increase the profit distribution for the shareholders and optimize investment return mechanism if conditions permit.

V. Undertakings of the Directors, Senior Management and the first largest shareholder of the Company

(I) Undertakings of the directors and senior management of the Company

To guarantee the continuous return capability of the Company and earnest implementation of these remedial measures, the directors and senior management of the Company make the following undertakings:

1. Undertake not to transfer any interests to other entities or individuals without consideration or with unfair conditions, nor otherwise damage the interests of the Company;
2. Undertake to impose constraints on position-related expenditures;
3. Undertake not to make any investment or consumption activity irrelevant to their performance of duties using the Company's assets;
4. Undertake to link the salary system formulated by the Board or the Remuneration Committee with the implementation of the Company's remedial measures;
5. In the case that any equity incentive policy is introduced hereafter, undertake to link the Company's proposed vesting condition of equity incentive with the implementation of the Company's remedial measures.

In the event that the directors and senior management of the Company as the parties responsible for the remedial measures breach the aforesaid undertaking or refuse to perform the aforesaid undertaking, the Company agree that the CSRC, the Shanghai Stock Exchange and other securities regulators can impose relevant penalties on or take relevant regulatory measures against the responsible parties in accordance with the provisions and rules formulated or promulgated by them. In the event that

the directors and senior management of the Company have caused losses to the Company or investors due to violation of the aforesaid commitments, they agree to undertake the liability of compensation according to law.

(II) Undertakings of the first largest shareholder of the Company

Shenergy Group, being the first largest shareholder of the Company, has make the following commitment: it will not act beyond its authority to interfere with the operating activities of 東方證券股份有限公司 and will not encroach the benefit of 東方證券股份有限公司.

SECTION VII OTHER MATTERS THAT ARE NECESSARY TO BE DISCLOSED

There are no other matters relating to the Non-public Issuance of shares that are necessary to be disclosed.

The Board of Orient Securities Company Limited

February 28, 2017

In 2016, the domestic economy maintained an overall steady operation, and the structure adjustment in the economic development made positive progress. In terms of policy, China continued to carry out a positive fiscal policy and a healthy monetary policy, which guaranteed a reasonable and sufficient market liquidity; meanwhile, China tried to restrain the assets bubble and prevent the economic and financial systematic risk. The year 2017 is the second year of the “13th Five-Year” plan. With the gradual cultivation and forming of the new drive for the economic growth as well as a faster switch from the old development drive to the new one, China’s economy is able to maintain a steady growth together with constantly new opportunities arising in reform and development of capital market.

The “13th Five-Year” plan clearly proposes to actively cultivate an open and crystal capital market with a healthy development, increase direct financing ratio, reduce leverage ratio, as well as to develop a financing market with multilevel equity. This indicates that, during the “13th Five-Year” period, securities industry will face new strategic opportunities and its growing potential will be fully developed, however, the market competition will be obviously intense, in particular the liquidity risk prevention demand caused by capital demand pressure and adding lever will be gradually increased. On March 23, 2015, the A Shares of 東方證券股份有限公司 (hereinafter referred to as the “**Company**”) were successfully listed, and on July 8, 2016, the H Shares of the Company were successfully listed, upon which, the Company officially taped into the international capital market, and became the fifth securities dealers who has listed both A Shares and H Shares. In the future, the Company will constantly deepen its strategic transformation, promoting the transformation from traditional economic business to wealth management, from business through traditional channels to comprehensive financial services, from traditional trading business to capital intermediary business, as well as from traditional proprietary business to sales trading business. Meanwhile, the company will closely center on its strategic objective of “creating a modern investment bank who has the domestic first-class core competitiveness and provides comprehensive financial services for clients” in order to further initiate a brand-new development layout for the Company.

Facing the intensifying competition among traditional business, and the rapid growing development trend of innovative business industry, as well as the industry regulatory model centering on net capital, the capital strength of a securities company becomes more important, thus replenishing capital has become an important drive for the development of a securities company. In the recent two years, partial securities companies among the same industry have subsequently issued non-public shares to increase their net capital level and strengthen their overall capital strength. To fully grasp times opportunity and speed up promoting the development of the Company, the Company is in urgent need to issue non-public shares to further strengthen its capital strength, replenish working capital, support the business development of the Company, optimize business structure and profit model, consolidate the two core competitiveness of wealth management and investment management, constantly improve the continuous profitability and risk prevention capacity of the Company, as well as provide stronger capital support for the effective execution of the strategies of the Company so as to create more value for the Shareholders.

I. BASIC INFORMATION OF THE NON-PUBLIC ISSUANCE OF SHARES

According to the development strategies and actual situation of the Company, the shares issued under this non-public issue shall not exceed 800,000,000 shares (inclusive), and the total amount of estimated proceeds shall not exceed RMB12 billion.

After deducting issuance expenses, the proceeds are intended to be fully used for increasing the Company's capital base and replenishing the Company's working capital. According to the Company's development goals, the planned key use of proceeds is as follows:

- (1) Supporting brokerage and securities financing business development
 - Further improving the securities financing service capacity
 - Promoting the transformation and development of the wealth management business of the Company
- (2) Investing in securities sales and trading business development
 - Continuing to develop the fixed income proprietary business
 - Investing greater resources in market neutral investment strategy
 - Further developing NEEQ market-making business
- (3) Improving investment management service capacity
 - Strengthening active management capacity of investment management business
 - Maintaining rapid growth of mutual fund management business
 - Expanding investment in direct investment and private equity business
- (4) Expanding innovative business investment
 - Expanding investment in FICC, OTC market, internet finance, and internationalized business
 - Expanding investment in building internet platform, trading and information system
- (5) Advancing collectivized development strategy of the Company
- (6) Working capital and other general corporate purposes

The Company will make corresponding adjustment in the detailed arrangement for the use of proceeds based on market variation and actual situation of the Company.

II. NECESSITY OF THE NON-PUBLIC ISSUANCE

(I) Enhancing capital strength to relieve net capital bottle-neck

In recent years, CSRC has formulated many regulatory documents including the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》), the Regulation on the Calculation Standard of the Risk Capital Preparation of Securities Companies (《關於證券公司風險資本準備計算標準的規定》), as well as the Regulation on the Calculation Standard of the Net Capital of Securities Companies (《關於調整證券公司淨資本計算標準的規定》), and has adopted an industry regulation and risk prevention system centering on net capital, so the business scope securities companies could get involved in and their operation scale have directly been linked with their net capital scale. With the intensifying competition among traditional business as well as the rapid increase of innovative business, the overall industry leverage ratio is increased. As securities industry is a capital intensive industry, capital scale of a securities company plays an important role in its market status, profitability, risk prevention capacity as well as its comprehensive competitiveness. Sufficient capital base will provide strong support for a securities company to expand its business scope and optimize its profit model.

Pursuant to the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) revised by CSRC in June 2016, securities companies are required to meet the following risk control index standard: (1) risk coverage ratio shall not be lower than 100%; (2) capital leverage ratio shall not be lower than 8%; (3) liquidity coverage ratio shall not be lower than 100%; (4) net steady capital ratio shall not be lower than 100%. Since 2015, however, the capital consumption business of the Company including margin financing business, agreed repurchased security transaction business and stock-pledged repurchased transaction business has developed rapidly, so the leverage ratio has been greatly increased. Unless rapidly replenishing capital base, the business development scale will be restricted by the above risk control indexes. Thus the Company is in urgent need to rapidly replenish its net capital through this non-public issue so as to provide support to expand and consolidate each business.

(II) Enhancing capital strength to improve comprehensive competitiveness

Pursuant to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》), CSRC has classified and rated securities companies based on their risk management capacity and in combination with market competitiveness and their continuous compliance condition (among which, risk management capacity index mainly includes net capital scale and risk control index centering on net capital, while market competitiveness index mainly includes the ranking of each business among the industry). Securities companies which receive rating of Class A will enjoy certain privilege in determining risk control index standard and calculation ratio of risk capital preparation, distributing regulatory resources, applying for additional business category, setting up new operation network, determining the pilot scope and promotion sequence of new business and new products, as well as paying securities investors guaranteed fund proportion. Since 2014, the Company has received rating of Class A Grade AA for three consecutive years. The Company intends to issue this non-public shares to expand its net asset scale, increase its net capital and each risk control index centering on net capital, as well as fully lift the ranking of each business among the industry, which is significant for the Company

to constantly maintain its position of a Class A Grade AA securities company, maintain its development advantage of each business, obtain innovative business qualification, as well as improve the comprehensive strength.

As at June 30, 2016, the average net asset and average net capital of the top 5 securities companies by industry capital scale is RMB97.798 billion and RMB66.324 billion, respectively. The Company ranks 11th among the industry with a net asset and a net capital of RMB33.438 billion and RMB22.436 billion, respectively, however, there still exists a notable gap as compared with the top 5 securities companies by industry capital scale. In recent two years, securities companies among the same industry have been further increasing their net capital level through refinancing, which greatly challenges the competition status of the Company among the industry. In July 2016, through the successful listing of the H Shares, the Company tapped into the international capital market. Meanwhile, following further opening of domestic capital market, the Company will directly compete with large international securities dealers in capital, technology and service aspects, which imposes higher requirements on the operation scale and capital strength of the Company. Refinancing of appropriate scale will help the Company rapidly increase its own capital strength, narrow the gap between it and the leading domestic securities companies and large international securities companies, speed up development so as to adapt to the development of capital market and fierce future industrial competition environment.

The Company aims to become a modern investment bank who has the domestic first-class core competitiveness and provides comprehensive financial services for clients through adhering to its development philosophy of “client first, professional service, expansion & innovation, harmony & win-win”, constantly deepening its strategic transformation, actively promoting the four transformations of the Company, as well as a driving force of client, talent and innovation, and a guarantee of the principle of comprehensive risk management system and standard operation. This non-public issue will help the Company grow steadily and constantly, and lay a solid foundation for realizing its strategic goals.

(III) Enhancing capital strength to expand innovative business

Under the traditional business model, securities companies have a limited operation business scope, and the homogeneous competition among the industry is rather severe. In recent years, the Company has actively responded to the transformation opportunity in the industry, and constantly carried out various innovative businesses with breakthrough progress, so that its innovative business scope is rapidly broadened, and income structure is constantly improved. In 2015, income from innovative business amounted to RMB4.9 billion, accounting for 28% of the total income as compared with 25% in 2014. The Company has conducted strong innovation-exploring and achieved business breakthrough in the field of internet finance, assets securitization, NEEQ market-making, collateralized stock repurchase, OTC market income receipts, privatization of overseas-listed technology enterprises, forming certain brand effect and first-mover advantage among the industry. Innovative business and related derivatives have now become new profit growth points of the Company.

(IV) Enhancing capital strength to prevent operational risk

With the constant expansion of innovative business scope, the Company is in urgent need to strengthen its liquidity risk management capacity to guarantee a continuing, steady and healthy operation. In January 2016, the Securities Association of China revised the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》), which imposes higher requirements on liquidity risk management of securities companies. Securities companies are required to establish a sound liquidity risk management system, and carry out effective identification, measurement, supervision and control for liquidity risk to timely meet liquidity requirements at a reasonable cost. In addition, keeping a capital scale which matches the business development scale is also beneficial to the Company to better prevent and resolve various risks, such as liquidity risk arising in the Company's operation, market risk, credit risk, operational risk and reputation risk.

As at the end of 2014 and the end of 2015, after deducting the account payable to brokerage clients, the gearing ratio of the Company was 78.28% and 78.52%, respectively, which remained at par. Under the circumstance of subsequently completing the listing of A Shares and H Shares, the Company and its subsidiaries kept the financial lever unchanged through bonds issuance, which demonstrated a sound asset and liability management capacity as well as risk control capacity.

As securities industry is a capital intensive industry, the capital scale of a securities company directly determines its risk prevention capacity. The rapid expansion of balance sheet due to capital intermediary business imposes higher requirements on the capital. As such, the Company increases its capital base through the non-public issue of shares, which can help the Company reduce its liquidity risk, optimize capital structure, and finally fully improve the capacity to prevent each systematic risk and non-systematic risk in operational process.

III. FEASIBILITY OF THE NON-PUBLIC ISSUANCE**(I) The non-public issue is in compliance with the requirements under the relevant laws, regulations and regulatory documents**

Based on the solid corporate governance structure and sound internal control system, the Company has a well-established risk control system with strong risk control capability. The Company has a fine asset quality, sound financial position and sustainable profitability, without any circumstance of equity (as defined under the Article 39 of the Administrative Measures on Securities Issuance by Listed Company (《上市公司證券發行管理辦法》)) being severely prejudiced by controlling shareholder or de facto controller and not yet being eliminated, unlawful external guarantee by the listed company and its subsidiaries and not yet being eliminated, and satisfies with the requirements under the laws, regulations and regulatory documents in relation to non-public issue.

(II) The non-public issue is in line with the national industrial policy orientation

The State Council promulgated Several Opinions concerning further Promoting Healthy Development of Capital Market (《關於進一步促進資本市場健康發展的若干意見》) on May 9, 2014, it is stated to foster the innovation and development of intermediary institutions, improve securities institutions to implement differentiated, professional and specialized development (推動證券經營機構實施差異化、專業化、特色化發展), and promote the formation of various modern investment banks which have international competitiveness, brand influence and systematic importance.

The CSRC promulgated the Opinions on Further Promoting Innovation and Development of Securities Institutions (《關於進一步推進證券經營機構創新發展的意見》) on May 13, 2014, which specifies the major tasks and detailed measures for promoting innovation and development of securities institutions from establishing modern investment banks, supporting business and product innovations as well as promoting regulatory transformation aspects, among which it is clearly stated that financing channels shall be broadened to support securities institutions in their equity and debt financing.

According to the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) and its auxiliary rules revised by CSRC in June 2016, it is suggested to combine with the new industry development trend, increase the continuous effectiveness of risk control index through improving net capital and calculation formula of risk capital preparation, perfecting leverage ratio and liquidity regulation index, as well as clarifying the counter-cyclical adjustment mechanism so as to promote the continuing, steady and healthy development of securities companies.

In recent years, with the revision and improvement of Securities Law, gradual adjustment of regulatory policies as well as the gradual deepening of regulatory approach centering on net capital regulation, policies have been being introduced to support securities companies to improve their profit model, enhance risk control, broaden financing channels, increase the proportion of direct financing, and encourage securities companies to further replenish their capital. With the rapid increase of the existing business scale and flying expansion of innovative business of the Company, the capital scale no longer fulfills the business needs of the Company, thus, the non-public issue of the Company is a following of the measures by the CSRC to encourage securities companies to further replenish their capital, and is in line with the national industrial policies orientation.

IV. USE PLAN OF THE PROCEEDS FROM THE NON-PUBLIC ISSUANCE**(I) Supporting brokerage and securities financing business development****1. Further improving the securities financing service capacity**

The Company provides securities financing business to clients including margin financing, securities repurchase and collateralized stock repurchase. Securities financing business has the characteristics of controllable risk and stable income, which is significant for optimizing the income structure, enhancing the profitability, perfecting the financial services, integrating the customer resources and improving the profit model of the Company. Currently, securities financing business has become the new profit growth drive of the Company and the business scale continues expanding.

The above securities financing businesses are all capital-consumption business, as such, the Company intends to further expand investment and replenish its capital base to promote the continuing and rapid development of margin financing, securities repurchase, collateralized stock repurchase as well as other capital intermediary business.

2. *Promoting the transformation and development of the wealth management business of the Company*

Facing the change in the industry and market, the Company constantly deepens its strategic transformation, and actively advances the switch to wealth management business from traditional brokerage business: on the one hand, expand network scope through setting up new branches or acquisition of branches to form a solid and reasonable marketing branch network, among which, the Company has been approved to set up 33 new securities branches, upon the completion of which the total number of branches will amount to 153; on the other hand, continue to optimize the marketing strategy of each branch to improve the comprehensive service capacity. Currently, the brokerage business of the Company does not realize desirable income, nor occupy outstanding market share, with insufficient branches and fairly unreasonable branch network, which all require urgent improvement. After the completion of the non-public issue, the Company will further promote the transformation and development of the wealth management business of the Company, and carry out periodic special training on wealth management skills, basic business and business of the branch for the receptionists of the branches, which will lay a foundation for the market scope expansion and profit growth of the wealth management business.

(II) Investing in securities sales and trading business development

From the perspective of the industry situation, the loosening of investment business related policies gradually creates a sound environment for the development of proprietary business. In 2012, the overall scale of proprietary investment in securities industry was increased.

1. *Continuing to develop the fixed income proprietary business*

From the perspective of the scale of fixed income proprietary securities business, due to its relatively stable income rate, the risk of fixed income securities investment is also relatively low. With the accumulation of net capital of securities companies and the development of bonds market, the bonds investment business of securities companies has developed rapidly. During the reporting period, the scale of bonds investment business of the Company was also greatly increased.

The Company intends to further expand the investment scale of proprietary securities business through replenishing its net capital subject to risks under control, so as to maintain and display the advantage of the Company in proprietary investment business and improve the profitability of the Company.

2. Investing greater resources in market neutral investment strategy

Currently, the Company has made obvious progress in financial derivatives business, funds market-making, stock index multiple strategies hedging business aspects. In addition, in recent years, the Company has established and expanded its fixed income investment team and quantitative investment team, who manage equity stock investment positions by utilizing stock index futures, and fully or partially hedge the risk of holding investment mix, such that the financial derivatives business develops rapidly. Through the proceeds from this non-public issue, the Company will further advance the development of derivatives business, and speed up developing the business scope based on non-stock index futures derivatives including goods futures, as well as actively explore to develop the market neutral investment strategy into precious metals, foreign exchanges and other investment category, so as to enrich the field of quantitative business.

3. Further developing NEEQ market-making business

The Company is one of the first securities firms registered with NEEQ Company and is permitted to conduct business as a market maker on June 20, 2014. In the NEEQ market-making business, the Company shall enhance its post-investment management, optimize the investment combination, insist on outstanding market-making strategy, select increasing stocks and keep market-making turnover among the leading level of the industry. As at the end of June 2016, the Company participated in the market-making of 147 companies and recorded a balance of RMB2.93 billion, representing an increase of 42.3% as compared with the corresponding period of last year. Among the listed companies the Company invested, 58% of them were listed as innovative companies, accounting for 75% of the market capitalization. The Company tries to constantly expand investment in market-making of premium NEEQ-listed company. As NEEQ market-making business is among capital intermediary business, which requires own capital to provide liquidity support to the market, the Company intends to utilize partial proceeds from the non-public issue to speed up developing NEEQ market-making business.

(III) Improving investment management service capacity

1. Strengthening active management capacity of investment management business

The Company provides a complete product line of asset management business including collective asset management, designated asset management, special asset management and public-raising securities investment funds through Orient Securities Assets Management, a wholly-owned subsidiary of the Company. Based on its own advantage, the asset management business the Company maintains an active management strategy, such that in recent years, its business scope has been rapidly expanded, and its income level has been keeping its leading position among the industry and successfully established its fixed income team, structure and alternative financial team.

Through the non-public issue, the Company intends to expand investment in the asset management business conducted by Orient Securities Assets Management, and consolidate its core competitiveness in equity investment and research, enhance research strength in offshore capital market, continue to improve building of fixed income team, expand research in structured products field so as to keep its leading position among the industry.

2. *Maintaining rapid growth of mutual fund management business*

The Company conducts fund management business through China Universal, a joint enterprise who is the largest Shareholder of the Company holding 35.41% of the Shares. China Universal Company enjoys good reputation among the industry, its total scale of asset management expanded continuously, its social security scale developed steadily, and the asset management planned scale of its subsidiaries was also constantly expanded.

Through the non-public issue, the Company intends to expand investment in mutual funds management business conducted by China Universal, and to keep its leading position in the field of mutual funds management as well as a sound market reputation.

3. *Expanding investment in direct investment and private equity business*

The Company conducts direct investment business through Orient Securities Capital, a wholly-owned subsidiary of the Company, and enters into private equity fund management business through this subsidiary. Orient Securities Capital was established on February 8, 2010. In recent years, direct investment business has actively developed merger business and overseas investment, which contributes to its breakthrough progress in the business scope and management scope. The Company intends to expand the scope of direct investment and private equity business, such as setting up seed funds to cultivate the middle and small asset management institutions which are still at initial stage or growing stage, excavating investment objectives with strong development potential and value, providing products creation, design and incubation service for them through platformed strategy to constantly cultivate the development of private equity institutions.

(IV) Expanding innovative business investment

1. *Expanding investment in FICC, OTC business, internet finance, and internationalized business*

The Company actively arranges FICC business, and its gold business has formed three segments of investment, lending and gold-linked products. Joining hands with Orient (Hong Kong), the Company has obtained the International Membership Qualification (Class A), as well as the approval to conduct the international gold proprietary business and agency business. Derivatives trading business actively responds to the external impact, positively expands diversification and revenue, strongly develops OTC derivatives business, and designs products based on the needs of clients. On-exchange option, funds market-making business is steadily conducted, market-making efficiency and income are increased, and try goods CTA trading strategy, conduct gold arbitrage trading. In December 2014, the Company received the Letter of Approving Conducting Internet Securities Business Pilot (Zhong Zheng Xie Han [2014] No.814) ((《關於同意開展互聯網證券業務試點的函》(中證協函 [2014] 814號)) by the Securities Association of China and obtained the approval of conducting internet securities business pilot. In addition, after the listing of the H Shares of the Company, the Company fully develops international business layout, and further strengthens global assets distribution. Through this proceeds, the Company will continue to expand investment in FICC, OTC business, internet finance, and internationalized business.

2. Expanding investment in building internet platform, trading and information system

Information system is the carrier of the whole securities market, which is significant for the healthy development of securities market, protecting investors equity, and improving the market competitiveness. The Company needs to expand investment and support in building information technical system to develop the transformation and large proprietary business of sales and wealth management business, as well as develop internet finance business. Through this proceeds, the Company intends to continue the upgrading, transformation and optimization of trading and information technical system so as to provide strong technical support to each business development of the Company.

(V) Advancing collectivized development strategy of the Company

The collectivized development of the Company has rapidly developed, managing domestic subsidiaries including Shanghai Orient Securities Futures Co., Ltd., Shanghai Orient Securities Assets Management Co., Ltd., Shanghai Orient Securities Capital Investment Co., Ltd., Shanghai Orient Securities Innovation Investment Co., Ltd., Citi Orient Securities Co., Ltd., and also holding shares of China Universal Asset Management Limited Liability Company and Great Wall Fund Management Co., Ltd. The Company will expand investment in the above subsidiaries based on the business development needs to help them expand and consolidate, as well as to create first-class professional securities subsidiaries. In recent year, the Company has also constantly sped up its internationalization process by holding business licenses of securities, consultancy, futures, asset management, provision of financial financing and investment banking in Hong Kong, as well as conducting multiple fields financial business including securities trading, financing, securities underwriting, asset management through Orient Finance Holdings (Hong Kong) Limited. The Company will further advance its collectivized development strategy, and fully display the synergy of domestic and overseas business, as well as provide diversified, professional and integral financial products and financial services to domestic and overseas clients, and finally create higher value for its Shareholders.

(VI) Working capital and other general corporate purposes

With the deepened development of capital market and the speedy development industry innovation, securities industry will embrace huge development potential in the future. Under the strong support from regulatory authority, there will be more innovative business and innovative products. The Company will closely focus on the changes in regulatory policies and market condition, and appropriately promote the development of each innovative business by utilizing the proceeds from the issue. In addition, with the rapid development of securities industry, the industry will face a new round of integration, and then enter into a speedy and expanding large-scale operation stage. The Company will utilize the proceeds from the issue to make funds preparation for the future potential merger opportunities.

V. Conclusion

In conclusion, the non-public issue of shares is conducive for the Company to enhance its capital strength, relieve the net capital bottle-neck, optimize the business and profit structure of the Company, constantly fulfill the needs of regulatory requirements; improve the comprehensive competitiveness capacity, keep its position of a Class A securities company, realize the strategic goals of the Company; speed up expanding the innovative business, increase the risk prevention capacity during the operation of the Company. Meanwhile, the non-public issue is in compliance with the requirements under the relevant laws, regulations and regulatory documents, and is in line with the national industrial policy orientation. As such, the non-public issue is pretty necessary and feasible. The successful implementation of the non-public issue will help the Company grasp times opportunities, speed up promoting the development of the Company, increase the continuous profitability and risk prevention capacity of the Company, provide stronger capital support to the effective execution of the strategies of the Company, and finally maximize the value of the Company and the interests of its Shareholders.

ANNEX III SPECIAL REPORT ON THE USE OF PREVIOUS PROCEEDS

The Board of 東方證券股份有限公司 (the “**Company**”) prepared the report on the use of the proceeds from the issuance of A Shares and H Shares as at 31 December 2016 (the “**Report on the Use of Previous Proceeds**”) in accordance with the Regulations on the Report on the Use of Previous Proceeds (Zheng Jian Fa Xing Zi [2007]No.500) by the China Securities Regulatory Commission and other relevant regulations. The use of the proceeds from the issuance of A Shares and H Shares of the Company is reported as follows:

I. BASIC CONDITION OF THE PREVIOUS PROCEEDS

According to the Reply of Approving the Initial Public Offering of Shares by 東方證券股份有限公司 (Zheng Jian Xu Ke [2015] No.305) by China Securities Regulatory Commission, the Company issued 1,000,000,000 ordinary shares (A Shares) at an issuing price of RMB10.03 per share under the initial public offering on 23 March 2015. The gross proceeds from the issuance of A Shares were RMB10,030,000,000, and the net proceeds were RMB9,799,724,000 after deducting the underwriting expenses of RMB230,276,000. All of the above proceeds from the issuance of A Shares were deposited in a special account opened by the Company on 16 March 2015. Upon verification, BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) has issued the capital verification report of Xin Hui Shi Bao Zi[2015] No. 111076.

As at 30 June 2015, the Company has fully used the proceeds from the issuance of A Shares, the special account opened for which has been canceled. The report on the use of the proceeds raised from the initial public offering of RMB ordinary shares (A Shares) by the Company on 23 March 2015 as at 30 June 2015 has been verified by Deloitte Touche Tohmatsu CPA Limited (Special General Partnership), who issued the verification report of De Shi Bao (He) Zi (15) No. E0126.

Upon the approval of Zheng Jian Xu Ke [2016] No. 1026 by the China Securities Regulatory Commission, the Company issued the overseas listed foreign shares (H Shares) on the Stock Exchange of Hong Kong Limited on 8 July 2016, and exercised the over-allotment option on 3 August 2016. As at 3 August 2016, the Company has issued 933,709,090 overseas listed foreign shares (H Shares), and the selling shareholders have sold 93,370,910 H Shares, which amounted to a total of 1,027,080,000 shares with a par value of RMB1 per share at an issuing price of HK\$8.15 per H Share in cash, totaling HK\$8,370,702,000.00. After deduction of the transaction fee and other expenses of HK\$145,045,025.30, HK\$8,225,656,974.70 has been deposited in the special account for the proceeds from the issuance of H Shares. Actual capital assigned to the above account amounted to RMB7,083,154,510.65 (including interest revenue received) on the basis of the median exchange rates of HK\$ against RMB announced by the People’s Bank of China. After deduction of the proceeds for the National Council for Social Security Fund of the PRC and other issuing expenses, the net proceeds from the issuance of H Shares of the Company amounted to HK\$7,417,133,357.56 (equivalent to RMB6,386,884,274.40).

ANNEX III SPECIAL REPORT ON THE USE OF PREVIOUS PROCEEDS

After deducting issuing expenses of RMB61,949,749.63 paid by the Company, the actual net proceeds were HK\$7,345,307,900.42 (equivalent to RMB6,324,934,524.77). The above actual net proceeds from the issuance of H Shares have been verified by Deloitte Touche Tohmatsu CPA Limited (Special General Partnership), who issued the capital verification report of De Shi Bao (Yan) Zi (16) No. 1082.

As at 31 December 2016, the Company has used an accumulation of HK\$1,100,000,000.00 of the non-settled proceeds from the issuance of H Shares, and an accumulation of RMB3,928,929,408.66 of the settled proceeds from the issuance of H Shares, which amounted to a total of RMB4,876,029,408.66 based on the actual settlement and usage. As at 31 December 2016, the balance of the bank account for the proceeds amounted to HK\$1,931,973,825.72 and RMB108,653.97, which amounted to a total of RMB1,728,259,241.08 according to the closing exchange rate; the interest income of the bank account for the H Shares proceeds amounted to HK\$3,912,810.20 and RMB108,653.97, which amounted to a total of RMB3,608,662.69 according to the closing exchange rate.

II. DEPOSIT AND MANAGEMENT OF THE PREVIOUS PROCEEDS

As at 30 June 2015, the Company has fully used the proceeds from the issuance of A shares, the special account opened for which has been canceled. Details are as follows:

Unit: RMB

Deposit Bank	A/C No.	Arriving date	Arriving amount	Date of account cancellation
Bank of Shanghai Putong Branch	31608103002530863	16 March 2015	9,799,724,000.00	25 June 2015
Total	/	/	9,799,724,000.00	/

Note: The above arriving amount includes unpaid other issue expenses other than securities underwriting expense payable.

ANNEX III SPECIAL REPORT ON THE USE OF PREVIOUS PROCEEDS

As at 31 December 2016, the total closing balance of the bank account for the proceeds from the issuance of H shares of the company amounted to HK\$1,931,973,825.72 and RMB108,653.97, which amounted to a total of RMB1,728,259,241.08 according to the closing exchange rate. Details are as follows:

	A/C No.	Currency	Original balance	Equivalent to RMB
ICBC Hong Kong Branch	86152010748-6	HK\$	322,568.59	288,537.60
Bank of Communications of China Limited Hong Kong Branch	027-532-0-2147940	HK\$	39,561.13	35,387.43
Bank of Shanghai Hong Kong Branch	200173	HK\$	–	–
Standard Chartered Bank (Hong Kong) Limited	447-1-799978-8	HK\$	39,771.43	35,575.54
ICBC Shanghai Branch	1001244329137000285	HK\$	19,098.39	17,083.51
Bank of Shanghai Huangpu Branch	3160811305000274072	HK\$	553,545,553.40	495,146,497.52
Bank of Communications Shanghai Huangpu Branch	310066713132404000118	HK\$	<u>1,378,007,272.78</u>	<u>1,232,627,505.50</u>
		Sub-total	1,931,973,825.72	1,728,150,587.11
ICBC Shanghai Branch	1001244329072201621	RMB	108,653.97	108,653.97
Bank of Shanghai Huangpu Branch	31608103002995394	RMB	–	–
Bank of Communications Shanghai Huangpu Branch	310066713012113000219	RMB	<u>–</u>	<u>–</u>
		Sub-total	108,653.97	108,653.97
		Total		<u><u>1,728,259,241.08</u></u>

III. ACTUAL USE OF THE PREVIOUS PROCEEDS

Pursuant to the Prospectus of the Initial Public Offering of A Shares of the Company, the proceeds shall be fully used for replenishing the capital base, and working capital of the Company to expand its business scope and optimize its business structure, so as to improve its market competitiveness and risk prevention capability. As at 30 June 2015, the proceeds from the issuance of A Shares have fully been used. Please refer to the appendix I “Checklist for the Use of the Proceeds from the issuance of A Shares” in this report for details.

Use of Proceeds under the Prospectus of H shares of the Company is described below:

- (1) About 35% of the proceeds will be used for further developing the brokerage and securities financing business of the Company;

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- (2) About 30% of the proceeds will be used for developing the overseas business of the Company;
- (3) About 15% of the proceeds will be used for expanding the investment management business of the Company;
- (4) About 10% of the proceeds will be used for developing the securities sales and trading business of the Company;
- (5) About 5% of the proceeds will be used for capital expenditure to improve the IT system and expand capital-light branches network (not yet used);
- (6) About 5% of the proceeds will be used for working capital and other general corporate purpose (not yet used).

As at 31 December 2016, the Company has utilized RMB4,876,029,400 of the proceeds from the issuance of H Shares according to the Prospectus of H shares of the Company. Please refer to the appendix II “Checklist for the Use of the Proceeds from the issuance of H Shares” in this report for details.

IV. USE OF THE FUNDS FOR THE PROJECTS INVESTED WITH PREVIOUS PROCEEDS WITH CHANGE OF PURPOSE

As at 31 December 2016, there was no change in the projects invested with the previous proceeds.

V. EXTERNAL TRANSFER OR REPLACEMENT OF THE PROJECTS INVESTED WITH THE PREVIOUS PROCEEDS

As at 31 December 2016, there was no external transfer or replacement of the projects invested with the previous proceeds.

VI. USE OF TEMPORARILY SPARE PROCEEDS

As at 30 June 2015, the proceeds from the issuance of A Shares have fully been used without any temporarily set aside for other purpose.

As at 31 December 2016, the proceeds from the issuance of H Shares that are not yet uses are deposited in the bank account for it without any temporarily set aside for other purpose.

VII. ECONOMIC EFFECT FROM THE PROJECTS INVESTED WITH THE PREVIOUS PROCEEDS

After receiving the proceeds from the issuance of A Shares, the proceeds have fully been used for replenishing the capital base of the Company. After receiving the proceeds from the issuance of H Shares, the proceeds have partially been used for the commitments under the Prospectus. Accordingly,

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the net capital and net assets of the Company have been increased. As the funds invested in the projects invested with the previous proceeds both include the original funds of the Company and the proceeds, the effects from the proceeds as at 31 December 2016 cannot be calculated on a separate basis.

VIII. USE AND DISCLOSURE OF THE PROCEEDS

The use of the previous proceeds was in line with the relevant contents disclosed in the periodic report of the Company and other information disclosure documents.

IX. PREVIOUS PROCEEDS THAT WERE NOT USED

As at 31 December 2016, the proceeds from the issuance of H Shares that were not used promised by the Company were RMB1,724,633,700. The Company invested in proceeds from the issuance of H Shares in accordance with the actual business development. After the review and approval of relevant regulatory authorities, the proceeds from the issuance of H Shares divided for foreign operations (equivalent to RMB1,006,437,700) will be transferred to overseas subsidiaries for further use in accordance with the actual business demands of overseas subsidiaries. According to the actual business demands of the Company and the trend of foreign exchange rates, the proceeds from the issuance of H Shares divided for working capitals and other general corporate purposes (equivalent to RMB359,098,000) will be included in central management as the liquid reserve of the Company and put into use in an opportune time on the basis of the Company's goal of maximizing its shareholders' interests. Proceeds from the issuance of H Shares divided for capital expenditure (equivalent to RMB359,098,000) will be used for the upgrading of information system and the expansion of the network of the light operating department which has entered into the preparation phase and the information system is improving as planned. Later, the previous proceeds will be put into use according to the actual demands.

The Board of Orient Securities Company Limited

13 February 2017

ANNEX III SPECIAL REPORT ON THE USE OF PREVIOUS PROCEEDS

APPENDIX I: CHECKLIST FOR THE USE OF THE PROCEEDS FROM THE ISSUANCE OF A SHARES

Closing time: 31 December 2016

Unit: RMB0'000

Total amount of proceeds:	1,003,000.00	Total accumulative used proceeds:	979,346.76
Net proceeds:	978,747.40	Annual breakdown:	979,346.76
Total amount of proceeds with change of purpose:	-	- 2015:	979,346.76
Percentage of the total proceeds with change of purpose:	-		

No.	Investment project	Total investment amount with the proceeds			Accumulative investment amount with the proceeds as at closing time			Difference between actual investment amount and Committed investment amount after fund-raising (including deposit interest)	Date of the project reaching expected condition for use (or the construction progress as at the closing time)
		Committed investment amount prior to fund-raising	Committed investment amount after fund-raising	Actual investment amount (including deposit interest)	Committed investment amount prior to fund-raising	Committed investment amount after fund-raising	Actual investment amount (including deposit interest)		
1	Replenish working capital of the Company	978,747.40	978,747.40	979,346.76	978,747.40	978,747.40	979,346.76	599.36	N/A
	Replenish working capital of the Company								

Note 1: The accumulative proceeds invested exceeding the total proceeds by RMB5,993,600 was due to the interest from the special account for the proceeds.

Note 2: The project invested with the proceeds and the invested funds of the Company both include the original funds of the Company and the proceeds.

The original funds and the proceeds used for the same project cannot be calculated on a separate basis, and the income cannot be identified on a separate basis.

Condition of and reasons for project not achieving the planned progress or expected income (by project invested with proceeds)	N/A
Explanation on material change in the feasibility of project	N/A
Pre-investment in the project invested with proceeds from the issuance of H Share and replacement	N/A
Condition of temporarily using spare proceeds from the issuance of H Shares for replenishing liquidity	N/A
Surplus amount of proceeds from the issuance of H Share after implementation and the reasons	N/A
Problems in the use of proceeds from the issuance of H Shares or others	N/A

Note: The proceeds from the issuance of H Shares in RMB that were used are calculated based on the actual settlement exchange rate, and the proceeds from the issuance of H Shares in HK\$ that were used are calculated based on the exchange rate at the end of the current month, and the proceeds from the issuance of H Shares that were not yet used are calculated based on the exchange rate at the end of the period.

According to the requirements under the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legal Interests of Minority Investors in Capital Market (Guo Ban Fa [2013] No.110) ((《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》)(國辦發[2013]110號)), and the Guiding Opinions on Matters Regarding the Dilution of Immediate Returns Due to Initial Public Offering, Refinancing and Material Assets Restructuring (CSRC Announcement [2015] No. 31) ((《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》)(證監會公告[2015]31號)) by the China Securities Regulatory Commission (hereinafter referred to as the “CSRC”), to guarantee the interests of the minority investors, the Company has conducted detailed analysis on the impact of the issue on the dilution of immediate returns, and the detailed analysis and remedial measures to be adopted are as follows:

I. IMPACT OF THE DILUTION OF IMMEDIATE RETURNS DUE TO THIS NON-PUBLIC ISSUE ON THE PRINCIPLE FINANCIAL INDICATORS OF THE COMPANY

The total share capital of the Company prior to this Non-public Issuance was 6,215,452,000 shares. The number of shares issued under this issue shall not exceed 800,000,000 shares (inclusive). After the completion of this issue, the share capital and net capital scale of the Company will be greatly increased.

(I) Principle Assumptions and Prerequisites

1. This Non-public Issuance is estimated to be completed before September 30, 2017, which is only an estimated date for calculating the impact of the dilution of immediate returns due to this issue and is subject to the approval by CSRC and the actual completion date of the issue.
2. The number of shares to be issued is estimated to be 800,000,000 shares, and the proceeds to be RMB12 billion (before issuance expenses).
3. According to the Announcement on Expected Decrease in 2016 Annual Results (Announcement Code: 2017-001) published on January 24, 2017 by the Company, an assumption is made that the net profit attributable to shareholders of parent company in 2016 is 2,319.9644 million, which will decrease by 68.33% as compared with it in 2015. At the same time, an assumption is made that the net profit attributable to shareholders of the parent company in 2017 will increase by 10%, remain at par and decrease by 10%, respectively, as compared with those in 2016, namely, will amount to RMB2,551.9608 million, RMB2,319.9644 million and RMB2,087.968 million, respectively.

According to the Company's third quarterly report in 2016, the net profit attributable to shareholder of the parent company from January to September 2016 amounted to 1,875.82 million and the net profit after deducting non-occurring profit or loss attributable to shareholders of the parent company amounted to RMB1,725.2122 million, the net profit ratio after deducting non-occurring profit or loss attributable to shareholders of the parent company was 91.97%. An assumption is made that the above ratios in 2016 remain at par as compared to those from January to September 2016, then the net profit after deducting non-occurring profit or loss attributable to shareholders of the parent company in 2016 will be 2,133.6967 million. An assumption is made that the net profit after deducting non-occurring profit or loss attributable to shareholders of the parent company in 2017 will increase by 10%, remain at par and decrease by 10%, namely, will be 2,347.0664 million, 2,133.6967million and 1,920.327 million, respectively.

The above assumptions on profit do not constitute profit forecasts of the Company. Investors are not advised to make investment decisions based on such assumptions. The Company does not assume responsibility for any losses of investors due to decisions made based on such assumption.

4. According to the Announcement on Expected Decrease in 2016 Annual Results (Announcement Code: 2017-001) published on January 24, 2017 by the Company, an assumption is made that, as at December 31, 2016, the net profit attributable to shareholders of parent company is 40,514.7739 million. The equity attributable to shareholders of the parent company as at December 31, 2017 = opening balance of the equity attributable to shareholders of the parent company in 2017 + the net profit attributable to shareholders of the parent company in 2017 + variation of current equity (if any). An assumption is made that the Company does not distribute any cash dividends in 2017. The above statistics on net assets does not represent the forecasts on net assets of the Company at the end of 2016 and the end of 2017, and is subject to uncertainty.
5. After receiving the proceeds from this issue, the impact on the manufacturing and operation, financial positions (such as operating income, financial expenses, investment gains) of the Company has not been taken into consideration.
6. The impact of other factors (other than proceeds raised, net profit and profit distribution) on net assets has not been taken into consideration in estimating the net assets of the Company after the issue.

(II) Analysis of Impact on the Earnings per Share and Weighted Average Return on Net Assets of the Company

The impact of this issue on the earnings per share and weighted average return on net assets of the Company is set out in the table below:

Item	2016/As at	2017/As at December 31, 2017	
	December 31, 2016 (assumptions)	Prior to the non-public issue	After the non-public issue
Total share capital (10,000 shares)	621,545.20	621,545.20	701,545.20
Scenario 1: The net profit attributable to shareholders of the parent company in 2017 increases by 10% as compared with the base number in 2016			
Net profit attributable to shareholders of the parent company (RMB10,000)	231,996.44	255,196.08	255,196.08
Net profit attributable to shareholders of the parent company, net of non-occurring profit or loss (RMB10,000)	213,369.67	234,706.64	234,706.64
Basic earnings per share (RMB/share)	0.41	0.41	0.40
Diluted earnings per share (RMB/share)	0.41	0.41	0.40
Basic earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.38	0.37
Diluted earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.38	0.37
Weighted average return on net assets	6.26%	6.11%	5.70%
Weighted average return on net assets, net of non-occurring profit or loss	5.76%	5.62%	5.24%

**THE DILUTION OF IMMEDIATE RETURNS DUE TO
THE NON-PUBLIC ISSUANCE OF A SHARES
AND THE REMEDIAL MEASURES**

Item	2016/As at December 31, 2016 (assumptions)	2017/As at December 31, 2017	
		Prior to the non-public issue	After the non-public issue
Scenario 2: The net profit attributable to shareholders of the parent company in 2017 remains at par as compared with the base number in 2016			
Net profit attributable to shareholders of the parent company (<i>RMB10,000</i>)	231,996.44	231,996.44	231,996.44
Net profit attributable to shareholders of the parent company, net of non-occurring profit or loss (<i>RMB10,000</i>)	213,369.67	213,369.67	213,369.67
Basic earnings per share (<i>RMB/share</i>)	0.41	0.37	0.36
Diluted earnings per share (<i>RMB/share</i>)	0.41	0.37	0.36
Basic earnings per share, net of non-occurring profit or loss (<i>RMB/share</i>)	0.38	0.34	0.33
Diluted earnings per share, net of non-occurring profit or loss (<i>RMB/share</i>)	0.38	0.34	0.33
Weighted average return on net assets	6.26%	5.57%	5.19%
Weighted average return on net assets, net of non-occurring profit or loss	5.76%	5.12%	4.78%

**THE DILUTION OF IMMEDIATE RETURNS DUE TO
THE NON-PUBLIC ISSUANCE OF A SHARES
AND THE REMEDIAL MEASURES**

Item	2016/As at	2017/As at December 31, 2017	
	December 31, 2016 (assumptions)	Prior to the non-public issue	After the non-public issue
Scenario 3: The net profit attributable to shareholders of the parent company in 2017 decreases by 10% as compared with the base number in 2016			
Net profit attributable to shareholders of the parent company (RMB10,000)	231,996.44	208,796.80	208,796.80
Net profit attributable to shareholders of the parent company, net of non-occurring profit or loss (RMB10,000)	213,369.67	192,032.70	192,032.70
Basic earnings per share (RMB/share)	0.41	0.34	0.33
Diluted earnings per share (RMB/share)	0.41	0.34	0.33
Basic earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.31	0.30
Diluted earnings per share, net of non-occurring profit or loss (RMB/share)	0.38	0.31	0.30
Weighted average return on net assets	6.26%	5.02%	4.69%
Weighted average return on net assets, net of non-occurring profit or loss	5.76%	4.62%	4.31%

Note: Basic earnings per share and weighted average return on net assets are calculated based on the requirements under the Guiding Opinions on Matters Regarding the Dilution of Immediate Returns Due to Initial Public Offering, Refinancing and Material Assets Restructuring (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) and the regulations under the No.9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies – Calculation and Disclosure of Return on Net Assets and EPS (《公開發行證券的公司資訊披露編報規則第9號 – 淨資產收益率和每股收益的計算及披露》) formulated by the China Securities Regulatory Commission.

II. NECESSITY AND REASONABLENESS OF THE ISSUE AND RELATIONSHIP BETWEEN THE PROJECTS TO BE INVESTED WITH THE PROCEEDS AND THE EXISTING BUSINESS OF THE COMPANY**(I) Necessity of the Issue****1. *Enhancing capital strength to relieve net capital bottle-neck***

In recent years, CSRC has formulated many regulatory documents including the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》), the Regulation on the Calculation Standard of the Risk Capital Preparation of Securities Companies (《關於證券公司風險資本準備計算標準的規定》), as well as the Regulation on the Calculation Standard of the Net Capital of Securities Companies (《關於調整證券公司淨資本計算標準的規定》), and has adopted an industry regulation and risk prevention system centering on net capital, so the business scope securities companies could get involved in and their operation scale have directly been linked with their net capital scale. With the intensifying competition among traditional business as well as the rapid increase of innovative business, the overall industry leverage ratio is increased. As securities industry is a capital intensive industry, capital scale of a securities company plays an important role in its market status, profitability, risk prevention capacity as well as its comprehensive competitiveness. Sufficient capital base will provide strong support for a securities company to expand its business scope and optimize its profit model.

Pursuant to the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) revised by CSRC in June 2016, securities companies are required to meet the following risk control index standard: (1) risk coverage ratio shall not be lower than 100%; (2) capital leverage ratio shall not be lower than 8%; (3) liquidity coverage ratio shall not be lower than 100%; (4) net steady capital ratio shall not be lower than 100%. Since 2015, however, the capital consumption business of the Company including margin financing business, agreed repurchased security transaction business and collateralized stock repurchase business has developed rapidly, so the leverage ratio has been greatly increased. Unless rapidly replenishing capital base, the business development scale will be restricted by the above risk control indexes. Thus the Company is in urgent need to rapidly replenish its net capital through this non-public issue so as to provide support to expand and consolidate each business.

2. *Enhancing capital strength to improve comprehensive competitiveness*

Pursuant to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》), CSRC has classified and rated securities companies based on their risk management capacity and in combination with market competitiveness and their continuous compliance condition (among which, risk management capacity index mainly includes net capital scale and risk control index centering on net capital, while market competitiveness index mainly includes the ranking of each business among the industry). Securities companies which receive rating of Class A will enjoy certain privilege in determining risk control index standard and calculation ratio of risk capital preparation, distributing regulatory resources, applying for additional business category, setting up new operation network, determining the pilot scope and promotion sequence of new business and new products, as well as

paying securities investors guaranteed fund proportion. Since 2014, the Company has received rating of Class A Grade AA for three consecutive years. The Company intends to issue this non-public shares to expand its net asset scale, increase its net capital and each risk control index centering on net capital, as well as fully lift the ranking of each business among the industry, which is significant for the Company to constantly maintain its position of a Class A Grade AA securities company, maintain its development advantage of each business, obtain innovative business qualification, as well as improve the comprehensive strength.

As at June 30, 2016, the average net asset and average net capital of the top 5 securities companies by industry capital scale is RMB97.798 billion and RMB66.324 billion, respectively. The Company ranks 11th among the industry with a net asset and a net capital of RMB33.438 billion and RMB22.436 billion, respectively, however, there still exists a notable gap as compared with the top 5 securities companies by industry capital scale. In recent two years, securities companies among the same industry have been further increasing their net capital level through refinancing, which greatly challenges the competition status of the Company among the industry. In July 2016, through the successful listing of the H Shares, the Company taped into the international capital market. Meanwhile, following further opening of domestic capital market, the Company will directly compete with large international securities dealers in capital, technology and service aspects, which imposes higher requirements on the operation scale and capital strength of the Company. Refinancing of appropriate scale will help the Company rapidly increase its own capital strength, narrow the gap between it and the leading domestic securities companies and large international securities companies, speed up development so as to adapt to the development of capital market and fierce future industrial competition environment.

The Company aims to become a modern investment bank who has the domestic first-class core competitiveness and provides comprehensive financial services for clients through adhering to its development philosophy of “client first, professional service, expansion & innovation, harmony & win-win”, constantly deepening its strategic transformation, actively promoting the four transformations of the Company, as well as a driving force of client, talent and innovation, and a guarantee of the principle of comprehensive risk management system and standard operation. This non-public issue will help the Company grow steadily and constantly, and lay a solid foundation for realizing its strategic goals.

3. Enhancing capital strength to expand innovative business

Under the traditional business model, securities companies have a limited operation business scope, and the homogeneous competition among the industry is rather severe. In recent years, the Company has actively responded to the transformation opportunity in the industry, and constantly carried out various innovative businesses with breakthrough progress, so that its innovative business scope is rapidly broadened, and income structure is constantly improved. In 2015, income from innovative business amounted to RMB4.9 billion, accounting for 28% of the total income as compared with 25% in 2014. The Company has conducted strong innovation-exploring and achieved business breakthrough in the field of internet finance, assets securization, NEEQ market-making, collateralized stock repurchase, OTC market income receipts, privatization of overseas-listed technology enterprises, forming certain brand effect and first-mover advantage among the industry. Innovative business and related derivatives have now become new profit growth points of the Company.

4. *Enhancing capital strength to prevent operational risk*

With the constant expansion of innovative business scope, the Company is in urgent need to strengthen its liquidity risk management capacity to guarantee a continuing, steady and healthy operation. In February 2014, the Securities Association of China promulgated and carried out the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》), which imposes higher requirements on liquidity risk management of securities companies. Securities companies are required to establish a sound liquidity risk management system, and carry out effective identification, measurement, supervision and control for liquidity risk to timely meet liquidity requirements at a reasonable cost. In addition, keeping a capital scale which matches the business development scale is also beneficial to the Company to better prevent and resolve various risks, such as liquidity risk arising in the Company's operation, market risk, credit risk, operational risk and reputation risk.

As at the end of 2014 and the end of 2015, after deducting the account payable to brokerage clients, the gearing ratio of the Company was 78.28% and 78.52%, respectively, which remained at par. Under the circumstance of subsequently completing the listing of A Shares and H Shares, the Company and its subsidiaries kept the financial lever unchanged through bonds issuance, which demonstrated a sound asset and liability management capacity as well as risk control capacity.

As securities industry is a capital intensive industry, the capital scale of a securities company directly determines its risk prevention capacity. The rapid expansion of balance sheet due to capital intermediary business imposes higher requirements on the capital. As such, the Company increases its capital base through the non-public issue of shares, which can help the Company reduce its liquidity risk, optimize capital structure, and finally fully improve the capacity to prevent each systematic risk and non-systematic risk in operational process.

(II) Feasibility of the Issue**1. *The non-public issue is in compliance with the requirements under the relevant laws, regulations and regulatory documents***

Based on the solid corporate governance structure and sound internal control system, the Company has a well-established risk control system with strong risk control capability. The Company has a fine asset quality, sound financial position and sustainable profitability, without any circumstance of equity (as defined under the Article 39 of the Administrative Measures on Securities Issuance by Listed Company (《上市公司證券發行管理辦法》)) being severely prejudiced by controlling shareholder or de facto controller and not yet being eliminated, unlawful external guarantee by the listed company and its subsidiaries and not yet being eliminated, and satisfies with the requirements under the laws, regulations and regulatory documents in relation to non-public issue.

2. *The non-public issue is in line with the national industrial policy orientation*

The State Council promulgated Several Opinions concerning further Promoting Healthy Development of Capital Market (《關於進一步促進資本市場健康發展的若干意見》) on May 9, 2014, it is stated to foster the innovation and development of intermediary institutions, improve securities institutions to implement differentiated, professional and specialized development, and promote the formation of various modern investment banks which have international competitiveness, brand influence and systematic importance.

The CSRC promulgated the Opinions on Further Promoting Innovation and Development of Securities Institutions (《關於進一步推進證券經營機構創新發展的意見》) on May 13, 2014, which specifies the major tasks and detailed measures for promoting innovation and development of securities institutions from establishing modern investment banks, supporting business and product innovations as well as promoting regulatory transformation aspects, among which it is clearly stated that financing channels shall be broadened to support securities institutions in their equity and debt financing.

According to the Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) and its auxiliary rules revised by CSRC in June 2016, it is suggested to combine with the new industry development trend, increase the continuous effectiveness of risk control index through improving net capital and calculation formula of risk capital preparation, perfecting leverage ratio and liquidity regulation index, as well as clarifying the counter-cyclical adjustment mechanism so as to promote the continuing, steady and healthy development of securities companies.

In recent years, with the revision and improvement of Securities Law, gradual adjustment of regulatory policies as well as the gradual deepening of regulatory approach centering on net capital regulation, policies have been being introduced to support securities companies to improve their profit model, enhance risk control, broaden financing channels, increase the proportion of direct financing, and encourage securities companies to further replenish their capital. With the rapid increase of the existing business scale and flying expansion of innovative business of the Company, the capital scale no longer fulfills the business needs of the Company, thus, the non-public issue of the Company is a following of the measures by the CSRC to encourage securities companies to further replenish their capital, and is in line with the national industrial policies orientation.

(III) Relationship Between the Projects to Be Invested with the Proceeds and the Existing Business of the Company

The total amount of proceeds from the issue shall not exceed RMB12 billion (including issuance expenses). After deducting issuance expenses, the net proceeds will fully be used for increasing the Company's capital base and replenishing the Company's working capital in order to expand the business scale and enhance the Company's market competitiveness and risk prevention capacity.

After the completion of the non-public issue, the principle business of the Company remains unchanged. Through this issue, the Company will rapidly increase its net capital scale, and drive the development of related business to improve the overall profitability and risk prevention capability of the Company.

(IV) Preparations Made by the Company in Terms of Personnel, Technology, Market for the Projects to Be Invested with the Proceeds

The Company is a large comprehensive securities company in China, familiar with domestic securities business with strong market competitiveness, whose business indicators and financial indicators both have a favorable ranking among the industry.

The Company always adheres to its philosophy of "Talents Are the No.1 Resources" and its strategy of "Consolidating the Company Through Talents". The Company has cultivated a large number of professional backbone strength with strong competitiveness through a well-established personnel-selection system which allows clear separation of powers and duties with reasonable allocation, and gradually deepening the marketing reform of performance management and remuneration incentive system, as well as sticking to the combination of internal excavation and external introduction.

Through fully carrying out securities business of various types, the Company has formed a solid business system and formulated a clear development plan. In recent years, the Company has sped up its development in brokerage and securities business, investment management business, securities sales and trading business with good operational effects.

(V) Operation and Development Trend of the Existing Business Segments of the Company

The existing principle business of the Company is securities business. In compliance with the requirements under the laws, regulations and regulatory authority, the Company has steadily carried out securities business, which has a sound development trend. In 2014, 2015, and from January to September 2016, the operating income of the Company amounted to RMB5,499.603 million, RMB15,434.7051 million and RMB4,767.963 million, while the net profit attributable to shareholders of the parent company for the same period was RMB2,341.6712 million, RMB7,325.2245 million and RMB1,875.82 million.

(VI) Risks**1. Unstable operational performance risk due to market variation**

The domestic capital market is, to some extent, periodic due to the impact of the overall economic development, macroeconomic policies, international economic environment and investment philosophy. Stagnant overall domestic economic condition and capital market may lead to decrease in clients' trading volume as well as decrease in market investment and financing activities, which will cause adverse impact on the commission and handling fees income from securities brokerage business, underwriting and sponsoring income from investment banking business, and income from asset management business of the Company. In addition, market downturn may also influence the financial assets as well as investment value and returns of the Company, and lead to decrease in value of trading and investment positions, which will cause unfavorable impact on the Company's income from investment trading business as well as profitability of the Company.

2. Industry competition risk

In recent years, with the rapid development of the domestic capital market, the competition among securities industry has been increasingly intense. Securities companies have similar business scope and income structure, and securities brokerage, securities proprietary, investment banking traditional business have large proportion of income, thus the competition among securities companies is homogeneous. In recent years, partial large securities companies have consolidated their capital strength by ways of capital increase or listing, therefore, the number of their securities branches has been growing rapidly. With the rapid development of internet finance, the market competition has been increasingly fierce. There is little difference between the principle business of the Company and those of other domestic securities companies, which forms direct competition between the Company and other securities companies.

In addition, following the gradual opening of domestic capital market, international securities companies begin to enter into domestic securities market. A batch of world-famous securities companies have gradually entered into China's securities industry by ways of forming joint ventures with domestic securities companies, which greatly challenges the domestic securities companies.

Apart from the competition between securities companies, there is still other competition from banks, trust and other financial institutions. The competition field has reached investment and financing service, financial consultant, assets securitization, risk investment field. Such fierce competition may influence the Company's competition status in each business among the industry.

3. Policies and legal risk

As securities industry is among the national concession industry, regulatory authority will guide the development of securities market and securities industry through certain plans and policies. NPC has promulgated the Company Law and the Securities Law, while the State Council and CSRC have promulgated the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》), the Rules for Governance of Securities Companies (《證券公司治理準則》), the

Administrative Measures on the Risk Control Index of Securities Companies (《證券公司風險控制指標管理辦法》) and the Provisional Regulations on Compliance Management of Securities Companies (《證券公司合規管理試行規定》). The Company shall carry out brokerage, securities proprietary, investment banking and asset management business under the supervision of the industry regulatory authority such as CSRC, Stock Exchange, and Securities Association, as well as industry self-regulatory organizations. Any violation of the rules under the relevant laws, regulations and regulatory requirements by the Company in its operational activities may lead to administrative penalties, such as fine, suspension or disqualification of business by regulatory authority.

4. Financial risk

The capital intensive characteristics of securities industry requires the Company to keep a sound funds liquidity with diversified financing channels to prevent potential liquidity risk. Currently, the Company has sufficient non-restricted monetary funds, strong debt payment capability, and sound liquidity. However, drastic variation in future market, large-scale losses in investment trading business, or large proportion of underwriting in underwriting business will contribute to liquidity shortage and difficulties in capital turnover, which will cause adverse impact on the financial positions and operation of the Company.

III. RISK WARNINGS ON THE DILUTION OF IMMEDIATE RETURNS DUE TO THE NON-PUBLIC ISSUE OF SHARES

After receiving the proceeds from this issue, the total share capital and net assets of the Company will be correspondingly increased. However, use of proceeds may not derive efficiency until after the operation for a period of time. Under the condition of increase in both the total share capital and net assets of the Company, if future business scope and net profit of the Company do not increase correspondingly, in the short term, earnings per share and weighted average return on net assets of the Company are estimated to decrease to a certain extent, resulting in risks on the dilutive impact on the immediate returns for shareholders after receiving the proceeds from this issue. Investors are advised to note such investment risks.

IV. DETAILED REMEDIAL MEASURES AGAINST THE DILUTION OF IMMEDIATE RETURNS TO BE ADOPTED BY THE COMPANY

To reduce the impact of dilution of immediate returns due to this issue, the Company undertakes to adopt the following measures:

(I) Optimize income structure to improve continuous profitability

The projects to be invested with the proceeds are based on the principle business of the Company, and are in line with the development strategy of the Company. The implementation of the projects to be invested with the proceeds will help the Company grasp the favorable opportunities of transformation and upgrading of securities industry, further adjust its income

structure, increase the income from credit trading, internet finance business, investment banking business, reduce operational risk, and improve its continuous profitability and sustainable development capability.

(II) Expand each business scope and keep appropriate lever level to promote increase in return on net assets

After receiving the proceeds from the non-public issue, the Company will speed up promoting projects to be invested with the proceeds, keep appropriate lever level, utilize the leverage effect of the proceeds to strengthen the debt capacity of the Company, expand assets scale, further increase the traditional business scope including brokerage business, underwriting and sponsoring business, proprietary business, asset management business, as well as increase the innovative business scope including credit trading, internet finance business, so as to further increase the Company's return on net assets to give a better return to the public shareholders.

(III) Standardize management and use of proceeds

To standardize management and use of proceeds as well as protect the interests of investors, the Company has formulated the Administrative System for Proceeds of Orient Securities Company Limited according to the requirements under the laws, regulations, regulatory documents including the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange as well as the regulations under the Articles of Association, which lays down detailed rules for deposit of proceeds, use of proceeds, change in use of proceeds, supervision of use of proceeds. The Company will strengthen the management of proceeds, use the proceeds in a reasonable and effective way, and prevent the risk of use of proceeds.

(IV) Further improve profit distribution policy and optimize investment return mechanism

The regulations in relation to profit distribution policy, in particular the specific conditions, ratios, and distribution forms of cash dividends as well as the distribution conditions of dividends by Shares under the Articles of Association are in compliance with the requirements under the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies by the CSRC (《中國證監會關於進一步落實上市公司現金分紅有關事項的通知》) and the Opinions on Further Promoting the IPO System Reform by the CSRC (《中國證監會關於進一步推進新股發行體制改革的意見》).

In 2014 and 2015, Company distributed the profit in strict compliance with the provisions under the relevant laws, regulations and the Articles of Association. The amount of cash dividends (inclusive of tax) was RMB792.2614 million and RMB2,376.7843 million, respectively, which accounted for 33.83% and 32.45% of the net profit attributable to the shareholders of the parent company in the combined statement, respectively.

After the completion of this issue, based on the strict execution of the existing dividends distribution policy, the Company will fully take into account future income level, profitability factors to further increase the profit distribution for the shareholders and optimize investment return mechanism if conditions permit.

V. UNDERTAKINGS OF THE DIRECTORS AND SENIOR MANAGEMENT AND THE LARGEST SHAREHOLDER OF THE COMPANY

(I) Undertakings of the Directors and Senior Management of the Company

To guarantee the earnest implementation of remedial measures for the returns, the directors and senior management of the Company make the following undertakings:

1. Undertake not to transfer any interests to other entities or individuals without consideration or with unfair conditions, nor otherwise damage the interests of the Company;
2. Undertake to impose constraints on position-related expenditures;
3. Undertake not to make any investment or consumption activity irrelevant to their performance of duties using the Company's assets;
4. Undertake to link the salary system formulated by the Board or the Remuneration Committee with the implementation of the Company's remedial measures;
5. In the case that any equity incentive policy is introduced hereafter, undertake to link the Company's proposed vesting condition of equity incentive with the implementation of the Company's remedial measures.

The directors and senior management of the Company as the main responsible entities for the remedial measures for the returns, in the event that the above undertakings are breached or not to be implemented, agree that penalties or relevant administrative measures shall be taken in accordance with the relevant provisions and rules as formulated or published by securities regulatory authorities such as the CSRC and the Shanghai Stock Exchange. The directors and senior management will be legally liable for indemnifying any losses to the Company or the investors caused by the directors and senior management' breach of above undertakings.

(II) Undertakings of the Largest Shareholder of the Company

The largest shareholder of the Company, Shenergy Company Limited, therefore undertakes as follows:

It shall not act beyond its power to interfere with the operation of management activities in Orient Securities Company Limited, nor shall it erode the interest of Orient Securities Company Limited.

I hereby undertake.

The Board of Orient Securities Company Limited

13 February 2017

In order to further standardize the dividends distribution of 東方證券股份有限公司 (hereinafter referred to as the “**Company**”), promote the Company to establish a solid, scientific, sustainable and stable shareholders’ return mechanism, as well as protect the legal interests of the minority investors, and according to the relevant regulations under the Company Law of the People’s Republic of China (hereinafter referred to as the “**Company Law**”), the Notice Regarding Further Implementation of Cash Dividends Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》), the Guideline No.3 for the Supervision and Administration of Listed Companies – Cash Dividends Distribution of Listed Companies (《上市公司監管指引第3號 – 上市公司現金分紅》) issued by the China Securities Regulatory Commission, the Notice Regarding Further Carrying out Dividends Distribution of Listed Companies in Shanghai Jurisdiction (《關於進一步做好上海轄區上市公司分紅有關工作的通知》) issued by the Shanghai branch office of the China Securities Regulatory Commission as well as the Articles of Association, and in combination with the actual conditions of the Company, the Shareholders’ Return Plan for the Next Three Years (from 2017 to 2019) (hereinafter referred to as the “**Plan**”) is formulated. Detailed information is as follows:

Article 1 Factors considered in formulating the Plan

With a vision on long-term and sustainable development, the Company has fully taken into account development strategic planning of the Company, industrial development trend, shareholders’ returns, cost of social funds, external financing environment to establish a sustainable, stable and scientific return plan and mechanism for investors and make clear and systematic arrangements for profit distribution of the Company in order to ensure the continuity and stability of the profit distribution policy.

Article 2 Principles for formulating the Plan

The Plan shall be formulated in compliance with the rules under the relevant laws, regulations and the Articles of Association through attaching importance to the reasonable investment return for investors and paying attention to actual operation for the current year and sustainable development of the Company. The Shareholder’ Return Plan of the Company shall fully consider and listen to the opinions from the Shareholders (in particular the minority investors), independent directors and supervisors.

Article 3 Specific Shareholders’ Return Plan for the next three years of the Company (from 2017 to 2019)

- (I) The Company may distribute its profit in cash, shares or a combination of both or in any other forms as permitted by the laws and regulations. The Company shall determine a cash dividends policy that enables the shareholders to share the growth and development results of the Company and receive reasonable investment returns, by considering factors such as its development stage, capital requirements.

- (II) The Company adopts cash dividends as its priority profit distribution policy, i.e. the Company shall distribute its dividends in cash when the Company gains profit in that year and the accumulated undistributed profit is positive and if there is distributable profit 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.
- (III) The Company generally distributes its profit on a yearly basis. Subject to the compliance of the profit distribution principles and cash dividends conditions, the Board of the Company may propose to distribute interim cash dividends based on the operational condition of the Company.
- (IV) 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 distribution 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.
- (V) The Board of the Company shall take into account features of the industries where the Company operates, its development stage, business model, and profit level and whether it has any significant capital expenditure plans, and formulate differentiated cash dividends policies in accordance with the provisions set out below and procedures provided in the Articles of Association:
- (1) If the Company is at the mature stage of development and has no significant capital expenditure plan, the proportion of cash dividends shall be at least 80% in the profit distribution;
 - (2) If the Company is at the mature stage of development and has a significant capital expenditure plan, the proportion of cash dividends shall be at least 40% in the profit distribution;
 - (3) If the Company is at the growing development stage and has a significant capital expenditure plan, the proportion of cash dividends shall be at least 20% in the profit distribution.

If it is difficult to determine the Company's stage of development while it has a significant capital expenditure plan, the profit distribution may be dealt with pursuant to the rules applied in the previous distribution.

Article 4 Decision-making mechanism for the profit distribution plan of the Company

The Board shall formulate a definite and clear 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 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 of the Company as well as conditions of adjustment. The profit distribution plan proposed by the Board shall be passed by a majority of the directors, 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.

The independent directors may collect opinions from minority shareholders for formulating and putting forward a dividends distribution proposal to the Board for consideration.

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. If profit distribution plan for the current year cannot be decided in compliance with the existing cash dividends policy or as per the minimum proportion of cash dividends, the profit distribution plan shall be passed by more than a half of the voting rights held by shareholders (including their proxies) present at the shareholders' general meeting. If profit distribution plan for the current year cannot be decided in compliance with the existing cash dividends policy or as per the minimum proportion of cash dividends under special circumstances, the Company shall disclose specific reasons and definite opinions from independent directors in regular reports, and make specific explanation to matters such as use of retained earnings, estimated investment gains, etc. Profit distribution plan for the current year shall be passed by more than two thirds of the voting rights held by shareholders (including their proxies) present at the shareholders' general meeting and the shareholders shall be accessible to network voting when attending the shareholders' general meeting to consider such plan. In case that the Board fails to strictly execute the cash dividends policy and Shareholders' Return Plan, fails to strictly implement the corresponding decision-making procedures for cash dividends, or fails to make an authentic, accurate and complete disclosure of cash dividends policy and its execution progress, the Supervisory Committee shall express explicit opinions and urge the Board to make corrections in a timely manner.

Article 5 Formulation cycle and decision-making mechanism for the Shareholders' Return Plan

- (I) The Company shall review the Shareholders' Return Plan again at least once every three years and finalize the Shareholders' Return Plan for that period based on its own actual conditions and the opinions from the shareholders (in particular the public investors) and independent directors, and make sure that such return plan will not violate the relevant regulations of the profit distribution policy.

- (II) Relevant department of the Company shall formulate the Plan by combing actual operation of the Company and fully taking into account the profit scale, cash flow condition, development stage and current funds needs of the Company to protect the equity of the shareholders (in particular the minority shareholders). The department shall carry out specific discussion based on the sustainable development of the Company and fully listen to the opinions from the shareholders (in particular the minority shareholders) and independent directors.

Article 6 The matters not covered in the Plan shall be executed in accordance with the requirements under the relevant laws and regulations, regulatory documents and the applicable Articles of Association.

Article 7 The Plan shall be interpreted by the Board of the Company.

1. SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company was as follows:

	Number of Shares	% to the existing total issued share capital of the Company
A Share	5,188,372,011	83.48%
H Share	1,027,080,000	16.52%
Total	<u>6,215,452,011</u>	<u>100.00%</u>

2. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinions and advice contained in this circular:

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the above expert has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports or letters and/or references in the form and context in which they are included.

As at the Latest Practicable Date, the above expert neither had any shareholding in any member of the Group nor had any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since December 31, 2015, being the date to which the latest published audited annual financial statements of the Company were made up.

3. NO MATERIAL ADVERSE CHANGE

In 2016, the capital market in China witnessed decline in both transaction volume and price. During the whole year, the SSE Composite Index decreased by 12.3%, the SZSE Component Index decreased by 19.6%, and the transaction volume of A shares in Shanghai and Shenzhen stock markets decreased by 50% as compared with 2015. Owing to such reasons, the income from brokerage business and proprietary business of the Company recorded decrease of various degrees, which caused the total

operating income of the Company for 2016 decreased by 55.56% from RMB1,543,470.51 to RMB685,925.85; the profit attributable to shareholders of the Company for 2016 decreased by 68.33% from RMB732,522.45 to RMB231,996.44. The above data is only preliminary accounting data and has not been audited by an accounting firm. The final and accurate financial data should be those to be disclosed in the 2016 annual report of the Company. For further details, please refer to announcement on expected decrease in 2016 annual results of the Company dated January 24, 2017.

Save as disclosed above, the Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2015, being the date to which the latest published audited annual financial statements of the Company were made up.

4. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

5. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any asset which has been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since December 31, 2015, being the date to which the latest published audited annual financial statements of the Company were made up.

Except the positions of Mr. Wu Jianxiong, Mr. Zhang Qian and Mr. Wu Junhao in Shenergy Group, the position of Mr. Chen Bin in Shanghai Haiyan Investment and the position of Mr. Li Xiang in SUMG, which render these Directors having interest in the Shenergy Subscription, Haiyan Subscription and SUMG Subscription respectively, none of the other Directors or supervisors of the Company has material interests in any contract or arrangement subsisting as at the Latest Practicable Date and significant in relation to the business of the Group. Other than Shenergy Group and Shanghai Haiyan Investment, there is no other director or proposed director who is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive(s) of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, supervisors or chief executive(s) of the Company is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions adopted by the Company.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and any of their associate(s) had interest in a business which competes or may compete with the business of the Group, or may have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 28th Floor, Jardine House, Central, Hong Kong during normal business hours from the date of this circular up to April 13, 2017 (both days inclusive):

- 1) Shenergy Subscription Agreement;
- 2) Letter from the Independent Board Committee;
- 3) Letter from the Independent Financial Adviser; and
- 4) The letter of consent from the experts referred to in the paragraph headed “EXPERT AND CONSENT” in this Appendix.