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This announcement and the listing document attached hereto are for information purposes only and do not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Issuer (as defined below). This announcement and the listing document attached hereto are not, and are not intended to be, an offer of securities of the Issuer for sale, or the solicitation of an offer to buy securities of the Issuer, in the United States. The securities referred to in this announcement and the listing document attached hereto have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to registration requirements of the Securities Act. The Notes (as defined below) are being offered and sold only outside the United States and, in certain circumstances, to non-U.S. persons (as defined in Regulation S under the Securities Act) in offshore transactions in compliance with Regulation S under the Securities Act (“Regulation S”). This announcement and the listing document attached hereto are not for distribution, directly or indirectly, in or into the United States. No public offer of the securities referred to herein is being or will be made in the United States.

This announcement and the listing document attached hereto have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document attached hereto) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document attached hereto shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Notice to Hong Kong investors: *With respect to the Notes listed on The Stock Exchange of Hong Kong Limited, the Issuer and the Guarantor (as defined below) confirm that the Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

Publication of Offering Circular

CSCIF Asia Limited (the “Issuer”)

(Incorporated under the laws of the British Virgin Islands with limited liability)

U.S.\$3,000,000,000 Medium Term Note Programme (the “Programme”)

Unconditionally and irrevocably guaranteed by



CSC Financial Co., Ltd. (中信建投証券股份有限公司) (the “Guarantor”)

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

(Hong Kong Stock Exchange Stock Code: 6066; Shanghai Stock Exchange Stock Code: 601066)

Arrangers and Dealers

**China Securities
International**

**China CITIC Bank
International**

HSBC

This announcement is made pursuant to Rule 37.39A of the Listing Rules.

Please refer to the offering circular dated 26 May 2021 (the “**Offering Circular**”) appended hereto in relation to the Programme. As disclosed in the Offering Circular, any notes (the “**Notes**”) to be issued by the Issuer and guaranteed by the Company under the Programme will be intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) only and if listed on The Stock Exchange of Hong Kong Limited will be listed on The Stock Exchange of Hong Kong Limited on that basis. The Offering Circular is published in English only. No Chinese version of the Offering Circular has been published.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

Beijing, the PRC, 27 May 2021

As at the date of this announcement, the sole director of CSCIF Asia Limited is Ms. XUE Lan.

As at the date of this announcement, the executive Directors of CSC Financial Co., Ltd. are Mr. WANG Changqing and Mr. LI Geping; the non-executive Directors of the CSC Financial Co., Ltd. are Mr. YU Zhongfu, Mr. WANG Xiaolin, Ms. ZHANG Qin, Ms. ZHU Jia, Mr. WANG Hao; and the independent non-executive Directors of the CSC Financial Co., Ltd. are Mr. DAI Deming, Mr. BAI Jianjun, Mr. LIU Qiao, Mr. PO Wai Kwong and Mr. LAI Guanrong.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND, IN CERTAIN CIRCUMSTANCES, ARE NOT U.S. PERSONS.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the “**Offering Circular**”). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from the CSCIF Asia Limited (the “**Issuer**”), CSC Financial Co., Ltd. (the “**Guarantor**”) as a result of such access. In order to be eligible to view the attached Offering Circular or make an investment decision with respect to the securities, investors must be outside the United States.

Confirmation of Your Representation: The attached Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to the Issuer, the Guarantor, each of China Securities (International) Corporate Finance Company Limited, China CITIC Bank International Limited and The Hongkong and Shanghai Banking Corporation Limited (together, the “**Arrangers**” and the “**Dealers**” and each an “**Arranger**” and a “**Dealer**”) that (1) you and any customers you represent are outside the United States and, in certain circumstances, not U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”)) and that the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached Offering Circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, none of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents (each as defined in the attached Offering Circular) or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee, the Agents or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Issuer, the Guarantor, the Arrangers and the Dealers.

Restrictions: The attached Offering Circular is being furnished in connection with an offering in offshore transactions to persons outside the United States or, in certain circumstances, to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF NOTES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES, OR IN CERTAIN CIRCUMSTANCES, TO U.S. PERSONS, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE OFFERING IS MADE SOLELY OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of any of the Issuer, the Guarantor, the Arrangers or the Dealers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute, in the United States or elsewhere, directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Arranger or Dealer or any of their respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the Issuer and the Guarantor in such jurisdiction.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached Offering Circular.

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “**Reply**” function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

CSCIF Asia Limited

(Incorporated with limited liability in the British Virgin Islands)

U.S.\$3,000,000,000

Medium Term Note Programme

Unconditionally and Irrevocably Guaranteed by



CSC Financial Co., Ltd.

(中信建投証券股份有限公司)

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

(Hong Kong Stock Exchange Stock Code: 6066; Shanghai Stock Exchange Stock Code: 601066)

Under the U.S.\$3,000,000,000 Guaranteed Medium Term Note Programme described in this Offering Circular (the "Programme"), CSCIF Asia Limited (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "Notes") which will be unconditionally and irrevocably guaranteed ("Guarantee") by its parent company, CSC Financial Co., Ltd. (the "Guarantor"). The Issuer is a wholly-owned subsidiary of the Guarantor. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$3,000,000,000 (or the equivalent in other currencies), subject to increase as further described in "Summary of the Programme".

Each Tranche of Notes (as defined in "Summary of the Programme") issued under the Programme will have the benefit of a deed of guarantee dated on or about the relevant Issue Date (as defined in Terms and Conditions of the Notes) (each, as amended, restated and/or supplemented from time to time, a "Deed of Guarantee") entered into between the Guarantor and the Hongkong and Shanghai Banking Corporation Limited as trustee (the "Trustee") substantially in the form attached to the Trust Deed (as defined in Terms and Conditions of the Notes). The Guarantor will be required to register or cause to be registered with the Beijing Branch of the State Administration of Foreign Exchange ("SAFE") the relevant Deed of Guarantee within the prescribed timeframe after its execution in accordance with the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) promulgated by SAFE following the issuance of each Tranche of the Notes. The Guarantor intends to complete the registration of the relevant Deed of Guarantee with SAFE as soon as practicable and in any event before the Registration Deadline (being 90 Registration Business Days (as defined in the Terms and Conditions of the Notes)) after the relevant Issue Date. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Guarantor.

With respect to each Tranche of the Notes where the NDRC Circular (as defined below) is applicable, registration will be completed, or application to registration will be made, by the Guarantor in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (NDRC Wai Zi [2015] No. 2044) (《國家發改委關於推進企業發行外債備案登記管理改革的通知》) (發改外資[2015]2044號) issued by the NDRC and which came into effect on 14 September 2015 and any implementation rules, reports, certificates or guidelines as may be issued by the NDRC, as supplemented and amended from time to time ("NDRC Circular"), as set forth in the applicable Pricing Supplement. After issuance of each Tranche of the Notes where the NDRC Circular is applicable, the Guarantor shall file the requisite information and documents with the NDRC within the prescribed timeframe after the relevant Issue Date of the Notes in accordance with the NDRC Circular. The PRC government has no obligations under the Notes. See the section entitled "Risk Factors" in this Offering Circular.

Application has been made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Programme during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) ("Professional Investors") only. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: Each of the Issuer and the Guarantor confirms that the Notes are intended for purchase by Professional Investors only and with respect to the Notes listed on the Hong Kong Stock Exchange will be listed on the Stock Exchange of Hong Kong Limited on that basis. Accordingly, each of the Issuer and the Guarantor confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined in "Summary of the Programme") of the Notes will be set out in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the relevant Issue Date. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system.

Notes may be issued in bearer or registered form. The Notes of each Series issued in bearer form ("Bearer Notes") will be represented on issue by a temporary global note in bearer form (each a "Temporary Global Note") or a permanent global note in bearer form (each a "Permanent Global Note") (collectively, the "Global Note"). Bearer Notes that are issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") ("TEFRA D") must be initially represented by a Temporary Global Note and interests in a Temporary Global Note will be exchangeable, in whole or in part, for interests in a Permanent Global Note on or after the date 40 days after the later of the commencement of the offering and the relevant Issue Date (the "Exchange Date"), upon certification as to non-U.S. beneficial ownership. Notes in registered form will be represented by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. The Notes of each Series in registered form will initially be represented by a global certificate (each a "Global Certificate"). Global Notes and Global Certificates may be deposited on the relevant Issue Date with a common depository on behalf of Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream"), or with a sub-custodian for the Central Money Markets Unit Service (the "CMU") operated by the Hong Kong Monetary Authority. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes or Global Certificates for Certificates are described in "Summary of Provisions Relating to the Notes while in Global Form".

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state of the United States and may not be offered or sold or, in case of Bearer Notes, delivered, in the United States or, in certain circumstances, to or for the account or benefit of, U.S. persons (as such term is defined in Regulation S under the Securities Act ("Regulation S")) except pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offer of securities in the United States. The Notes and the Guarantee are being offered outside the United States in reliance on Regulation S under the Securities Act. Bearer Notes are subject to U.S. tax law requirements. See "Subscription and Sale".

MiFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "MiFID II") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "UK MiFIR Product Governance Rules") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

IMPORTANT – EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the "Prospectus Regulation"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT – UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation"). Consequently, no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer and the Guarantor (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

The Programme has been assigned a rating of "Baa1" by Moody's Investor Services, Inc. ("Moody's") and a rating of "BBB+" by Fitch Ratings Ltd. ("Fitch"). In addition, the Guarantor has been assigned a corporate family rating of "Baa1" by Moody's with stable outlook and a long-term foreign and local currency issuer default rating of "BBB+" by Fitch with stable outlook. These ratings are only correct as at the date of this Offering Circular. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Investing in the Notes involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. Prospective investors should have regard to the factors described under the section entitled "Risk Factors" in this Offering Circular.

Arrangers and Dealers

China Securities International

China CITIC Bank International

HSBC

Offering Circular dated 26 May 2021

NOTICE TO INVESTORS

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and their respective subsidiaries (together, the “**Group**”) and to the Guarantee, the Deed of Guarantee and the Notes which is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor, the Group, the Guarantee, the Deed of Guarantee and the Notes are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and to the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Guarantee, the Deed of Guarantee or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements; and (vi) the statistical, industry and market-related data included in this Offering Circular is based on or derived from sources which each of the Issuer and the Guarantor believes to be accurate and reliable in all material respects.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Listing of the Programme or the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor and the terms of the offering, including the merits and risks involved. Please see “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Notes. Each Tranche of Notes will be issued on the terms set out herein under “*Terms and Conditions of the Notes*” as amended and/or supplemented by a Pricing Supplement. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein (see “*Information Incorporated by Reference and Financial Information*”) and, in relation to any Tranche of Notes, must be read and construed together with the relevant Pricing Supplement. This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, each of China Securities (International) Corporate Finance Company Limited, China CITIC Bank International Limited and The Hongkong and Shanghai Banking Corporation Limited (together, the “**Arrangers**” and the “**Dealers**” and each an “**Arranger**” and a “**Dealer**”), the Trustee and the Agents (as defined in the Terms and Conditions of the Notes) to inform themselves about and to observe any such restrictions. None of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. No action is being taken to permit a public offering of any of the Notes or the distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action would be required for such purposes. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

MiFID II product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled “*MiFID II Product Governance*” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market – The Pricing Supplement in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to UK MiFIR Product Governance Rules is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT – UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in the UK Prospectus Regulation. Consequently, no key information document required by the UK PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) – *In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the EEA, the United Kingdom, the PRC, Hong Kong, Singapore, Japan and the British Virgin Islands, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular and any Pricing Supplement, see “*Subscription and Sale*”.

No person has been or is authorised to give any information or to make any representation concerning the Group, the Notes, the Guarantee or the Deed of Guarantee other than as contained in this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, any Arranger, any Dealer, the Trustee, any Agent (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). Neither the delivery of this Offering Circular or any Pricing Supplement nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Group or any of them since the date hereof, or if later, the date upon which this Offering Circular has been most recently amended or supplemented, or create any implication that the information contained herein is correct as at any date subsequent to the date hereof or, as the case may be, the date upon which this Offering Circular has been most recently amended or supplemented, or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee, the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) to subscribe for or purchase any Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is highly confidential and has been prepared by the Issuer and the Guarantor solely for use in connection with the Programme and the proposed offering of the Notes under the Programme as described herein. Neither the Issuer nor the Guarantor has authorised its use for any other purpose. This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular each investor agrees to these restrictions.

No representation or warranty, express or implied, is made or given by the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) as to the accuracy, completeness or sufficiency of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them). None of the Arrangers, the Dealers, the Trustee and the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) has independently verified any of the information contained in this Offering Circular and can give assurance that such information is accurate, truthful or complete.

To the fullest extent permitted by law, each of the Arrangers, the Dealers, the Trustee, the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) does not accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by it or on its behalf in connection with the Issuer, the Guarantor, the giving of the Guarantee or the issue and offering of the Notes. Each of the Arrangers, the Dealers, the Trustee, the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Arrangers, the Dealers, the Trustee, the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) undertakes to review the financial condition or affairs of the Guarantor during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investors in the Notes of any information coming to the attention of any Arranger, any Dealer, the Trustee, any Agent (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them).

This Offering Circular, the Pricing Supplement and any other information supplied in connection with the Programme or any Notes (i) are not intended to provide the basis of any credit or other evaluation and (ii) should not be considered as a recommendation by any of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) that any recipient of this Offering Circular should purchase any Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED, WITHIN THE UNITED STATES OR, IN CERTAIN CIRCUMSTANCES, TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S OR THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND REGULATIONS THEREUNDER IN CASE OF BEARER NOTES).

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as stabilisation manager(s) in the applicable Pricing Supplement (“**Stabilisation Manager(s)**”) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor’s particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances. Each person receiving this Offering Circular acknowledges that such person has not relied on the Arrangers, the Dealers, the Trustee, the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) in connection with its investigation of the accuracy of such information or its investment decision.

Industry and Market Data

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee, the Agents or their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them, and none of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee, the Agents and their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them makes any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

Presentation of Financial Information

The audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2019 and 2020 (the “**Consolidated Financial Statements**”) which are included elsewhere in this Offering Circular, have been audited by PricewaterhouseCoopers (“**PwC**”), the Guarantor’s independent auditor. Such financial statements of the Guarantor were prepared and presented in accordance with the International Financial Reporting Standards (“**IFRS**”).

As at 1 January 2018, the Guarantor adopted new accounting standards, including IFRS 9, which are effective for accounting periods beginning on or after 1 January 2018. The IFRS 9 model introduces, among other things, an expected credit loss model.

As at 1 January 2019, the Guarantor adopted additional new accounting standards, including IFRS 16, which are effective for accounting periods beginning on or after 1 January 2019. The IFRS 16 requires lessees to recognize lease liabilities and right-of-use assets. The impact of the initial application of the new accounting standards is disclosed in note 3.2 of the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2019.

According to the IFRS 9 and IFRS 16 transitional arrangements, upon initial application of IFRS 9 and IFRS 16, the Guarantor is not required to restate the comparable figures of the prior period. Instead, differences caused by the adoption of the IFRS 9 or IFRS 16 model were adjusted to the beginning balance of retained earnings and other comprehensive income.

Unless otherwise stated, all financial data contained herein which is stated as relating to the Guarantor is referring to the consolidated data of the Guarantor.

Exchange Rate Information

The consolidated financial statements of the Guarantor are presented in Renminbi. For convenience only and unless otherwise noted, all translations from Renminbi into U.S. dollars in this Offering Circular were made at the rate of RMB6.5250 to U.S.\$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2020. No representation is made that the Renminbi amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all, and *vice versa*.

Rounding

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

Certain Definitions and Conventions

We have prepared this offering circular using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” the “Company,” the “Group” and words of similar import, we are referring to CSC Financial Co., Ltd. itself, or CSC Financial Co., Ltd. and its consolidated subsidiaries, as the context requires.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “**China**” or the “**PRC**” are to the People’s Republic of China and, for the purpose of this Offering Circular only, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan; references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the People’s Republic of China; references to “**U.S.**” are to the United States of America and references to “**EU**” are to the European Union.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “**Renminbi**” or “**RMB**” are to the lawful currency of the PRC; references to “**HK\$**” are to the lawful currency of Hong Kong; references to “**U.S. dollars**” or “**U.S.\$**” are to the lawful currency of the United States of America and references to “**sterling**” or “**£**” are to the lawful currency of the United Kingdom.

“**AUM**” refers to asset under management;

“**Board**” or “**Board of Directors**” refers to the board of directors of the Guarantor;

“**BSCOMC**” refers to Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心);

“**CAM**” refers to collective asset management;

“**CAGR**” refers to compound annual growth rate, which is the geometric progression ratio that provides a constant rate of return over the specified time period.

“**Central Huijin**” refers to Central Huijin Investment Ltd., our second largest shareholder, owned 30.76% of our equity interest and voting rights as at 31 December 2020;

“**China Securities Capital**” refers to China Capital Management Limited (中信建投資本管理有限公司), a company incorporated in the PRC with limited liability on July 31, 2009 and a wholly-owned subsidiary of us;

“**China Securities Funds**” refers to China Securities Funds Management Limited (中信建投基金管理有限公司) and a subsidiary of us;

“**China Securities Futures**” refers to China Futures Co., Ltd. (中信建投期貨有限公司), a company incorporated in the PRC with limited liability on March 16, 1993 and became a wholly-owned subsidiary of us in July 2007;

“**China Securities International**” refers to China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司) and a subsidiary of us;

“**CITIC Group**” refers to CITIC Group Corporation (中國中信集團有限公司), a SOE established in the PRC in 1979, which is the only substantial shareholder of CITIC Securities;

“**CITIC Securities**” refers to CITIC Securities Co., Ltd. (中信證券股份有限公司), a joint stock company incorporated in the PRC with limited liability on October 25, 1995;

“**CRMW**” refers to credit risk mitigation warrant;

“**CSRC**” refers to China Securities Regulatory Commission;

“**CSDC**” refers to the China Securities Depository and Clearing Corporation (中國證券登記結算有限責任公司);

“**Dealogic**” is a financial markets platform offering integrated content, analytics, and technology via a service to financial firms;

“**ChiNext**” refers to growth enterprise market board in mainland China stock exchanges;

“**Huaxia Securities**” refers to Huaxia Securities Co., Ltd. (華夏證券股份有限公司), a joint stock company incorporated in the PRC with limited liability on October 4, 1992 and an Independent Third Party, which is currently in liquidation;

“**NEEQ**” refers to National Equities Exchange and Quotations (全國中小企業股份轉讓系統);

“**PBOC**” refers to People’s Bank of China;

“**PRC Government**” in this Offering Circular means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or where the context requires, any of them;

“**SAC**” refers to The Securities Association of China;

“**SAM**” refers to specialised asset management;

“**SFC**” refers to Securities and Futures Commission;

“**SME(s)**” refers to small-and medium-sized enterprise(s);

“**SOE(s)**” Refers to state-owned enterprise(s);

“**SSE**” refers to Shanghai Stock Exchange;

“**STAR Market**” refers to Science and Technology Innovation Board;

“**SZSE**” refers to Shenzhen Stock Exchange;

“**TAM**” refers to targeted asset management;

“**TMT**” refers to telecommunication, media and technology;

“**Wind Info**” refers to Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software.

INFORMATION INCORPORATED BY REFERENCE AND FINANCIAL INFORMATION

This Offering Circular should be read and construed in conjunction with:

- (i) each relevant Pricing Supplement; and
- (ii) all amendments and supplements from time to time to this Offering Circular; and
- (iii) any audited consolidated annual financial statements or unaudited but reviewed consolidated interim financial statements of the Group, in each case together with any audit or review reports prepared in connection therewith, that are published subsequent to the date of this Offering Circular as amended and supplemented from time to time;

which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular.

Any statement contained in this Offering Circular or in a document incorporated by reference into this Offering Circular will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained in any such subsequent document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this Offering Circular, except as modified or superseded.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available (upon prior written request and proof of holding and identity satisfactory to the Trustee) free of charge, during usual business hours (being between 9:00 a.m. and 3:00 p.m., Hong Kong time) on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the principal office of the Trustee set out at the end of this Offering Circular.

SUPPLEMENTAL OFFERING CIRCULAR

Each of the Issuer and the Guarantor has given an undertaking to the Dealers that unless the Issuer has notified the Permanent Dealers in writing that it does not intend to issue Notes under the Programme for the time being, each of the Issuer and the Guarantor shall prepare and publish an amendment or supplement to the Offering Circular if at any time during the duration of the Programme a significant new factor, material mistake or material inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or the Guarantor and/or of the rights attaching to the Notes and/or the Guarantee.

FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made forward-looking statements in this Offering Circular regarding, among other things, the Group's financial condition, future expansion plans and business strategies. These forward-looking statements are based on the Group's current expectations about future events. Although the Issuer and the Guarantor believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- the Group's business and operating strategies;
- the Group's capital expenditure and development plans;
- the amount and nature of, and potential for, future development of the Group's business;
- future developments, trends and conditions in the industries and markets in which the Group operates;
- various business opportunities that the Group may pursue;
- changes in political, economic, legal and social conditions in the PRC, including the specific policies of the PRC central and local governments affecting the regions where the Group operates;
- changes in the global economic conditions and material volatility in the global financial markets;
- the prospective financial condition and performance regarding the Group's businesses;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industries and markets in which the Group operates;
- availability and costs of bank loans and other forms of financing;
- changes in competitive conditions and the Group's ability to compete under these conditions;
- the Group's ability to obtain additional capital on acceptable terms;
- reduction or discontinuance of the government subsidies and other government grants or the mismatch in terms of timing of the availability of the government fiscal support and the Group's cash flow requirement;
- fluctuations in the PRC and general risks incidental to the ownership and management of properties; and
- other risks identified in the section entitled "*Risk Factors*" in this Offering Circular.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. The Issuer, the Guarantor and each other member of the Group undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the actual results of the Issuer, the Guarantor or the Group could differ materially from those anticipated in these forward-looking statements.

These forward-looking statements speak only as at the date of this Offering Circular. The Issuer and the Guarantor expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

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SUMMARY

This summary highlights certain information contained in this Offering Circular. This summary does not contain all the information that you should consider before investing in the Notes. You should carefully read this Offering Circular in its entirety, including the sections entitled “Forward-Looking Statements”, “Risk Factors” and “Description of the Group”, as well as the financial statements and notes thereto included elsewhere in this Offering Circular. Capitalised terms used in this summary and not otherwise defined shall have the meanings given to them in the sections “Description of the Issuer” and “Description of the Group”.

THE GROUP

Overview

We are a leading large full-service investment bank in the PRC with superior value creation capabilities. We have a strong client base, a premier investment banking brand, a balanced business structure, and a robust and prudent risk management system. We adhere to the core value of “achievements leading to status”, as well as the concepts of “risk management as priority” and “healthy development” to strive for better service for existing customers and realise mutual growth with the enterprise. In the meantime, we penetrated the local market and moved towards the international market to explore potential quality customers. We aim at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging the development trends in the PRC and global capital market.

As at 31 December 2020, we had a total of 21 branch companies, 292 securities branches and 25 future branches in China, and owned a subsidiary in Hong Kong, China Securities International. The four business segments of us are investment banking segment, wealth management segment, trading and institutional client services segment and asset management segment. Our diversified service and product offerings enable us to achieve synergies across different business lines. With the strong support of our shareholders and our professional management team, we engage in proprietary trading to enhance our financial performance. Through the efforts of our visionary leadership team and our high calibre employees, we have experienced substantial growth over the years and achieved industry-leading positions in many of our business segments. The table below sets out the detailed components of each business segment.

<u>Investment banking</u>	<u>Wealth management business</u>	<u>Trading and institutional client services business</u>	<u>Asset management business</u>
Equity financing business	Brokerage and wealth management business	Equity sales and trading business	Asset management business
Debt financing business	Margin financing and securities lending business	Fixed income products sales and trading business	Fund management business
Financial advisor business	Repurchase business	Investment and research business	Private equity investment business
		Prime brokerage business	
		QFII business and RQFII business	
		Other investment businesses	

Our total assets increased by 46.4% from RMB195,082.3 million as at 31 December 2018 to RMB285,669.6 million as at 31 December 2019, and further increased by 30.0% to RMB371,228.1 million (US\$56,893.2 million) as at 31 December 2020. Our total revenue and other income increased by 17.7% from RMB16,491.8 million as at 31 December 2018 to RMB19,407.4 million as at 31 December 2019, and further increased by 58.3% to RMB30,720.1 million (US\$4,708.1 million) as at 31 December 2020.

Competitive Strengths

As a rapidly developing national comprehensive securities company with strong business competitiveness, we believe the following strengths have contributed to our success and differentiated us from our competitors:

- Our extraordinary position and prestigious reputation;
- Strong support from government and shareholders;
- Well-balanced business layout with outstanding advantages;
- Prudent and comprehensive risk control system and strong risk management capabilities;
- Stable and remarkable financial performance;
- Diversified financing channels and comprehensive liquidity safeguard mechanism; and
- Visionary, professional and dedicated management team.

Business Strategies

To achieve our goal to become a large integrated securities company based in China with global vision and comprehensive advantages, we intend to pursue the following strategies:

- **Customer service:** We will stick to a client-oriented approach by relentlessly improving our customer service system and further strengthening customer development and services.
- **Talent strategy:** We will continue vigorously cultivating and recruiting talents, motivating key employees and improving the quality of employees.
- **Capital strength:** We plan to utilise various tools to continually enhance our capital strength and to optimise our balance sheet.
- **Information technology:** We plan to increase our R&D capacity, propel the integration and development of online and offline businesses. We also intend to continually strengthen digital governance.
- **Risk control and compliance:** We plan to construct a comprehensive and integrated risk control mechanism covering the entire process of all business lines, and continue to improve our risk control and management levels.
- **Management and operation:** Through reengineering and informatisation of our organisational process, we intend to vigorously promote the construction of a centralised operating system to further improve and optimize the efficiency and effectiveness of operations management.
- **Internationalisation strategy:** Through integrated management and development of domestic and foreign businesses, we plan to build a comprehensive cross-border business platform that integrates our bountiful resources and leverages our competitive advantages.

Recent Development

March 2021 Financial Information

We have published the first quarterly report for the first quarter ended 31 March 2021 (the “March 2021 Financial Information”), financial information in which was prepared according to PRC GAAP. The report is available on the website of the Hong Kong Stock Exchange at www.hkexnews.com.hk and the website of Shanghai Stock Exchange at www.sse.com.cn. The March 2021 Financial Information is not included in and does not form a part of this Offering Circular.

The March 2021 Financial Information has not been audited or reviewed by the Group’s independent accountants, or any other independent accountants and may be subject to adjustments if audited and reviewed. Consequently, none of the Arrangers, Dealers, the Trustee or Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) makes any representation, warranty or undertaking, express or implied, regarding the accuracy or completeness of such financial information, and potential investors should not place undue reliance on such information. The Group’s March 2021 Financial Information should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the six months ending 30 June 2021 or the full year of 2021.

We summarise below some of the changes to our income statement and statement of cash flows for the three months ended 31 March 2021 compared to the three months ended 31 March 2020.

- Net fee and commission income increased mainly due to the increase in net income from brokerage fees.
- Investment income increased mainly due to the increase in investment income of financial assets held for trading.
- We recorded a loss arising from changes in fair value as compared to a gain arising from changes in fair value in the same period of 2020, mainly due to the decrease of floating profit of financial assets held for trading for the period.
- Other operating income increased mainly due to the increase in revenue from bulk commodity trading income of the futures subsidiary.
- We recorded a net cash in-flow from operating activities as compared to a net cash out-flow from operating activities in the same period of 2020 mainly due to the increase in net cash inflows from operating activities resulting from the increase in accounts payable to underwriting clients and decrease in financial assets held for trading.
- We recorded a net cash out-flow from financial activities as compared to a net cash in-flow from financing activities in the same period of 2020 mainly due to an increase in net cash outflows from financing activities resulting from the repayment of short-term financing instruments payable for the period in 2021.

Changes in Independent Non-Executive Directors

On 14 May 2021, our shareholders meeting approved the election of Mr. Po Wai Kwong and Mr. Lai Guanrong as the independent non-executive directors of the Company. Meanwhile Mr. Feng Genfu and Ms. Zhu Shengqin resigned as the independent non-executive directors of the Company and their relevant duties as committee members of the special committees of the Board. See “*Directors, Supervisors and Senior Management*”.

Proposed Election of Non-Executive Directors

On 26 May 2021, our Board approved each of Ms. Zhang Wei and Ms. Wang Hua to be nominated as a candidate for non-executive director of the Company. Such appointment will be submitted to the general meeting of the Company for approval to be held at a later time to be announced.

Impact of COVID-19 pandemic

Since the outbreak of the COVID-19 pandemic in January 2020, the Company has focused on ensuring the safety and welfare of its employees and on implementing the requirements of the “Notice on Further Strengthening Financial Support for Prevention and Control of New Coronavirus Infectious Pneumonia” (the “**Notice**”), that was jointly issued by the PBOC, MOF, the China Banking and Insurance Regulatory Commission, CSRC and SAFE on 31 January 2020. The Notice directs financial institutions such as ourselves to prioritise the extension of credit to customers who are involved in responding to the COVID-19 pandemic and to customers located in areas severely impacted by the pandemic. To the extent that our business involves such customers and such areas, we have exercised reasonable and prudent flexibility in the provision of new credit and the rollover for our existing customers. As a provider of a broad range of financial services, our business is inherently more able to withstand the economic impact of a public health emergency than companies in many other industries. As at the date of this Offering Circular, the COVID-19 pandemic has not had, and is not expected to have, any material impact on the Company’s overall business, financial condition, or results of operations.

THE ISSUER

The Issuer was incorporated as a BVI business company with limited liability on 7 July 2015 in the British Virgin Islands under the BVI Business Companies Act, 2004 (as amended). Its registered office is located at Ritter House, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands, and its registration number is 1881690. The Issuer is wholly owned by the Guarantor. Under the Issuer’s memorandum and articles of association, the Issuer has full capacity to carry on or undertake any business or activity, do any act or enter into any transaction that is not prohibited under any law for the time being in force in the British Virgin Islands. However, so long as the Notes are outstanding, the Issuer will limit its permitted activities as described under “Terms and Conditions of the Notes.” The Issuer’s primary purpose is to act as one of the Group’s financing subsidiaries to issue and hold the Notes. The Issuer has no material business nor assets and does not have any employees. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue further bonds and engage in other business activities related to us and may incur substantial liabilities and indebtedness.

SUMMARY OF THE PROGRAMME

The following summary is qualified in its entirety by the remainder of this Offering Circular. This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Phrases used in this summary and not otherwise defined shall have the meanings given to them in the section entitled “Terms and Conditions of the Notes”.

Issuer	CSCIF Asia Limited (Legal entity identifier (LEI): 254900FU76ICV5ASRV38).
Guarantor	CSC Financial Co., Ltd. (中信建投証券股份有限公司).
Description	Guaranteed Medium Term Note Programme.
Size	Up to U.S.\$3,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer and the Guarantor may increase the aggregate nominal amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations in respect of the Notes and the Guarantee are discussed under “ <i>Risk Factors</i> ”.
Arrangers and Dealers	China Securities (International) Corporate Finance Company Limited, China CITIC Bank International Limited and The Hongkong and Shanghai Banking Corporation Limited.
	The Issuer and the Guarantor may from time to time terminate the appointment of any Dealer under the Programme or appoint Dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “ Dealers ” are to all persons appointed as a dealer in respect of one or more Tranches or the Programme.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”). Further restrictions may apply in connection with any particular Series or Tranches of Notes.
Trustee	The Hongkong and Shanghai Banking Corporation Limited.
Issuing and Paying Agent, Paying Agent, Registrar, Transfer Agent and (where appointed) Calculation Agent	The Hongkong and Shanghai Banking Corporation Limited.
CMU Lodging and Paying Agent ..	The Hongkong and Shanghai Banking Corporation Limited.

Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and/or the issue price), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the Issue Date, the issue price, the first payment of interest on them, nominal amount of the Tranche, the timing for submission of the NDRC Post-Issue Filing (if applicable) and the timing for completion of the Cross-border Security Registration, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer or registered form as described in “ <i>Terms and Conditions of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Tranche of Registered Notes will initially be represented by a Global Certificate. Where TEFRA D (as defined below) is applicable, Bearer Notes must initially be issued in the form of a temporary Global Note, exchangeable for permanent Global Notes or Definitive Notes upon certification of non-U.S. beneficial ownership.
Clearing Systems	Clearstream, Euroclear, the CMU and, in relation to any Tranche, such other clearing system as may be selected by the Issuer and the Guarantor and approved by the Issuing and Paying Agent, the Trustee and if applicable, the Registrar.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note or Global Certificate representing the Notes may be deposited with a common depository for Euroclear and Clearstream or deposited with a sub-custodian for the CMU. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Guarantor, the Trustee, the Issuing and Paying Agent and the relevant Dealer(s). Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor and the relevant Dealer(s).
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s).
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all relevant laws, regulations and directives. Unless otherwise permitted by the then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (“FSMA”) will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Interest	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Fixed Rate Notes	Fixed interest will be payable in arrear on such date or dates as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s).
Floating Rate Notes	<p>Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> • on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or • by reference to LIBOR, EURIBOR, HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin; or • on such other basis as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s). <p>Interest periods will be specified in the relevant Pricing Supplement.</p>

Zero Coupon Notes	Zero Coupon Notes (as defined in “ <i>Terms and Conditions of the Notes</i> ”) may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes (as defined in the Terms and Conditions of the Notes) will be made in such currencies, and based on such rates of exchange, as the Issuer, the Guarantor and the relevant Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in prices of securities or commodities or to such other factors as the Issuer, the Guarantor and the relevant Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable (detailed in a formula, index or otherwise). Unless permitted by then-current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement as further described in Condition 6(e) and Condition 6(f), respectively, of the Terms and Conditions of the Notes.
Redemption for Relevant Events	Following the occurrence of a Relevant Event, any Noteholder will have the right, at such Noteholder’s option, to require the Issuer to redeem all, but not some only, of such Noteholder’s Note at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a Non-Registration Event) of their nominal amount, together in each case with accrued interest, as further described in Condition 6(d) of the Terms and Conditions of the Notes.
Redemption for Taxation Reasons	Notes will be redeemable at the Issuer’s option prior to maturity for taxation reasons as further described in Condition 6(c) of the Terms and Conditions of the Notes.

Status of Notes	The Notes and any Receipts and Coupons relating to them will constitute direct, unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.
Status of the Guarantee	The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Guarantor.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 4(a) of the Terms and Conditions of the Notes.
Cross-Acceleration	The Terms and Conditions of the Notes will contain a cross-acceleration provision as described in Condition 10(c) of the Terms and Conditions of the Notes.
Withholding Tax	All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and Coupons or under the relevant Guarantee will be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, or the PRC or, in each case, any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law. The Issuer or (as the case may be) the Guarantor will, subject to certain customary exceptions, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. As further described in Condition 8 of the Terms and Conditions of the Notes.
Ratings	<p>The Programme has been assigned a rating of “Baa1” by Moody’s and a rating of “BBB+” by Fitch. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.</p>
Governing Law and Jurisdiction	English law with the submission to the exclusive jurisdiction of Hong Kong courts.

Listing and Admission to
Trading

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange.

However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system.

Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and the British Virgin Islands and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “*Subscription and Sale*”.

Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) (“**TEFRA D**”) unless (i) the relevant Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the Code (“**TEFRA C**”) or (ii) the Bearer Notes are issued other than in compliance with TEFRA D or TEFRA C. In the case of Bearer Notes, only Notes with a term of 365 days or less (taking into account any unilateral extensions and rollovers) will be issued other than in compliance with TEFRA D or TEFRA C and will be referred to in the relevant Pricing Supplement as a transaction to which the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”) is not applicable. Bearer Notes with a term of more than 365 days (taking into account any unilateral extensions and rollovers) that are held through the CMU must be issued in compliance with TEFRA C, unless at the time of issuance the CMU and CMU Lodging and Paying Agent have procedures in place so as to enable the Issuer to comply with the certification requirements under TEFRA D.

SELECTED FINANCIAL INFORMATION

The summary audited consolidated financial information of the Guarantor as at and for the years ended 31 December 2018, 2019 and 2020 as set forth below is extracted from the Guarantor's consolidated financial statements as at and for the years ended 31 December 2019 and 2020, which have been audited by PricewaterhouseCoopers in accordance with International Financial Reporting Standards, or IFRS.

The summary consolidated financial information as set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant audited consolidated financial statements of the Guarantor and the notes thereto included elsewhere in this Offering Circular. The Guarantor's historical consolidated financial information should not be taken as an indication of its future financial performance.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(audited)	(audited)	(audited)	(unaudited)
	(in thousands)			
Fee and commission income	7,231,682	8,632,665	13,624,258	2,088,009
Interest income	6,764,194	6,243,047	7,103,653	1,088,682
Net investment gains	2,416,898	4,406,510	8,673,322	1,329,245
	16,412,774	19,282,222	29,401,233	4,505,936
Other income	79,068	125,172	1,318,892	202,129
Total revenue and other income	16,491,842	19,407,394	30,720,125	4,708,065
Fee and commission expenses	(802,747)	(1,007,621)	(1,599,870)	(245,191)
Interest expenses	(4,770,850)	(4,683,906)	(5,772,932)	(884,741)
Staff costs	(3,954,082)	(4,709,554)	(6,436,296)	(986,406)
Tax and surcharges	(79,928)	(98,597)	(156,047)	(23,915)
Other operating expenses and costs	(1,686,761)	(1,805,800)	(3,244,948)	(497,310)
Credit impairment (losses)/reverses	(1,153,905)	59,430	(1,318,850)	(202,123)
Impairment losses on other assets	–	–	(77,324)	(11,850)
Total expenses	(12,448,273)	(12,246,048)	(18,606,267)	(2,851,535)
Operating profit	4,043,569	7,161,346	12,113,858	1,856,530
Share of profits and losses of associates	7,874	(7,606)	11,865	1,818
Profit before income tax	4,051,443	7,153,740	12,125,723	1,858,348
Income tax expense	(948,015)	(1,624,092)	(2,589,038)	(396,787)
Profit for the year	3,103,428	5,529,648	9,536,685	1,461,561
Attributable to:				
Equity holders of the Company	3,087,460	5,501,688	9,509,429	1,457,384
Non-controlling interests	15,968	27,960	27,256	4,177
	3,103,428	5,529,648	9,536,685	1,461,561
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share) –				
Basic and diluted	0.37	0.67	1.20	

Note:

(1) The gray area in the above table means the line item is not applicable for the specified year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(audited)	(audited)	(audited)	(unaudited)
	(in thousands)			
Profit for the year	3,103,428	5,529,648	9,536,685	1,461,561
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent years				
Net gains on investments in debt instruments measured at fair value through other comprehensive income	641,318	257,719	190,485	29,193
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	87,021	(98,651)	(151,015)	(23,144)
Income tax relating to these items	(181,847)	(38,744)	(8,546)	(1,310)
	546,492	120,324	30,924	4,739
Share of other comprehensive income of associates	1,131	(1,352)	9	1
Foreign currency translation differences ..	114,820	33,836	(100,171)	(15,352)
Items that will not be reclassified subsequently to profit or loss				
Net (losses)/gains on investments in equity instruments designated as at fair value through other comprehensive income ...	(435,672)	154,688	69,843	10,704
Income tax relating to these items	102,089	(37,442)	(17,958)	(2,752)
	(333,583)	117,246	51,885	7,952
Other comprehensive income for the year, net of tax	328,860	270,054	(17,353)	(2,659)
Total comprehensive income for the year	3,432,288	5,799,702	9,519,332	1,458,901
Attributable to:				
Equity holders of the Company	3,416,320	5,771,742	9,492,076	1,454,724
Non-controlling interests	15,968	27,960	27,256	4,177
	3,432,288	5,799,702	9,519,332	1,458,901

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(audited)	(audited)	(audited)	(unaudited)
	(in thousand)			
Non-current assets				
Property, plant and equipment	451,376	503,438	572,287	87,707
Right-of-use assets	1,102,008	996,674	152,747	87,707
Investment properties	47,742	49,438	56,133	8,603
Intangible assets	186,915	235,918	360,478	55,246
Investment in associates	162,713	269,512	229,286	35,140
Financial assets at fair value through profit or loss	2,978,326	3,296,031	6,015,508	921,917
Financial assets at fair value through other comprehensive income	3,003,549	3,153,312	3,225,144	494,275
Financial assets at amortized costs	67,276	–	–	–
Financial assets held under resale agreements	3,449,017	2,507,276	1,348,317	206,639
Refundable deposits	1,880,554	2,793,611	8,740,991	1,339,615
Deferred tax assets	974,506	963,865	1,725,519	264,447
Other non-current assets	175,859	126,428	98,365	15,075
Total non-current assets	13,377,833	15,000,837	23,368,702	3,581,410
Current assets				
Margin accounts	25,148,083	27,806,140	46,515,175	7,128,762
Accounts receivable	1,440,038	2,136,866	8,018,153	1,228,836
Financial assets at fair value through profit or loss	54,347,744	88,459,902	132,640,140	20,327,991
Financial assets at fair value through other comprehensive income	27,965,580	32,490,523	44,871,712	6,876,891
Financial assets at amortized cost	119,787	–	–	–
Derivative financial assets	1,239,584	955,450	1,632,209	250,147
Financial assets held under resale agreements	20,348,220	18,611,480	14,768,886	2,263,431
Cash held on behalf of clients	33,698,335	52,695,657	70,268,389	10,769,102
Cash and bank balances	17,055,809	47,221,055	28,580,085	4,380,090
Other current assets	341,300	291,715	564,692	86,543
Total current assets	181,704,480	270,668,788	347,859,441	53,311,792
Total assets	195,082,313	285,669,625	371,228,143	56,893,202

	As at 31 December			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(audited)	(audited)	(audited)	(unaudited)
	(in thousand)			
Current liabilities				
Accounts payable to brokerage clients . . .	35,038,585	54,625,736	74,710,488	11,449,883
Lease liabilities	—	340,140	323,956	49,648
Derivative financial liabilities	177,461	761,572	2,424,620	371,589
Financial liabilities at fair value through profit or loss	1,252,581	1,126,344	347,466	53,251
Financial assets sold under repurchase agreements	32,531,875	55,532,975	84,512,239	12,952,067
Placements from banks and other financial institutions	4,048,839	9,263,545	9,035,700	1,384,782
Taxes payable	302,981	600,594	1,393,426	213,552
Short-term borrowings	1,118,475	889,012	625,174	95,812
Short-term financing instruments payable .	13,753,706	17,495,953	42,296,044	6,482,152
Other current liabilities	20,997,043	52,599,717	34,497,643	5,286,995
Total current liabilities	109,221,546	193,235,588	250,166,756	38,339,733
Net current assets	72,482,934	77,433,200	97,692,685	14,972,059
Total assets less current liabilities	85,860,767	92,434,037	121,061,387	18,553,469
Non-current liabilities				
Financial liabilities at fair value through profit or loss	—	—	1,248,263	191,305
Bonds in issue	37,650,008	34,133,021	50,016,307	7,665,334
Lease liabilities	—	735,122	655,308	100,430
Deferred tax liabilities	342,642	660,874	1,065,416	163,282
Other non-current liabilities	4,720	10,286	4,646	712
Total non-current liabilities	37,997,370	35,539,303	52,989,940	8,121,064
Net assets	47,863,397	56,894,734	68,071,447	10,432,406
Equity				
Share capital	7,646,385	7,646,385	7,756,695	1,188,766
Other equity instruments	5,000,000	9,980,698	9,961,509	1,526,668
Reserves	19,425,664	21,412,062	27,940,854	4,282,123
Retained earnings	15,505,197	17,542,774	22,076,125	3,383,314
Equity attributable to equity holders of the Company	47,577,246	56,581,919	67,735,183	10,380,871
Non-controlling interests	286,151	312,815	336,264	51,535
Total equity	47,863,397	56,894,734	68,071,447	10,432,406

Note:

(1) The gray area in the above tables means the line item is not applicable for the specified year.

RISK FACTORS

An investment in the Notes is subject to a number of risks. Investors should carefully consider all of the information in this Offering Circular and, in particular, the risks described below, before deciding to invest in the Notes. The following describes some of the significant risks that could affect the Issuer, the Guarantor, the Group and the value of the Notes. Some risks may be unknown to the Issuer, the Guarantor and the Group and other risks, currently believed to be immaterial, could in fact be material. Any of these could materially and adversely affect the business, financial condition, results of operations and prospects of the Issuer, the Guarantor and the Group. The market price of the Notes could decline due to any of these risks, and investors may lose part or all of their investment. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Issuer, the Guarantor or the Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular. The Guarantor and the Group may be affected materially by requirements and restrictions that arise under PRC laws, regulations and government policies in nearly all aspects of its business in the PRC.

The risks described below are not the only risks that may affect the Group or the Notes. Additional risks and uncertainties of which the Group is not aware or that the Group currently believes are immaterial may also adversely affect the Group's businesses, financial condition and results of operations. If any of the possible events described below occur, the Group's businesses, financial condition and results of operations could be materially and adversely affected. In such case, the Group may not be able to satisfy its obligations under the Notes, and investors could lose all or part of their investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

General global and PRC economic and market conditions could adversely affect our business.

General global and PRC economic and market conditions could adversely affect our business. General economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations on the financial and securities industries, market volatility, upward and downward trends in the market, business and financial sectors, currency and interest rate fluctuations, availability of short-term and long-term market funding sources and cost of funding, could affect our business. As a securities firm, our business is directly affected by the inherent risks associated with the securities market, including market volatility, changes in investment sentiment, fluctuations in trading volume, liquidity changes and the creditworthiness or the perceived creditworthiness of the securities industry in the marketplace.

Global political and economic conditions may affect the financial market conditions in the PRC. Any sudden and dramatic changes in the global and PRC financial market conditions could materially and adversely affect our operational and financial condition. As the PRC capital market is still evolving, market conditions may change rapidly. In response to the sudden and significant market fluctuations, the PRC Government initiated a series of measures to stabilise the market, which have and will continue to impact our business.

In addition, continuous downturns in general economic conditions and adverse capital markets conditions in the PRC could materially and adversely affect our business, operating results, financial condition and prospects in various ways, including but not limited to the following:

- the financing demand of our clients could decrease, which could adversely affect our underwriting and sponsor fees from investment banking business, further leading to a decline in our revenue from investment banking business;
- the demand of our clients for securities trading could decrease, which could adversely affect our securities brokerage business and securities financing business, further leading to a decline in our revenue in related fees, commissions and interest income;
- the value and returns of financial assets we hold for securities trading and investment and the value of our asset management product portfolio may be adversely affected by market volatility, and our opportunities to exit and realise value from our investments may also be reduced;
- we may face increased default risks that our client or counterparty may fail to perform its contractual obligations;

- our financing cost may increase due to our limited access to liquidity and the capital markets, and therefore restrict our ability to raise funds to develop our business; and
- we may not be able to effectively execute our business plans and strategies.

While the economy in China has grown significantly over the past decades, growth has been uneven, both geographically and among various sectors of the economy. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect the financial market conditions in China. In addition, there is considerable uncertainty in the outlook for world economy and financial markets, including concerns over the escalating trade disputes between China and the United States and the designation of China as a “currency manipulator” by the U.S. government, the withdrawal of the United Kingdom from the European Union and the significant decrease in the crude oil price due to the international-wide travel restrictions and the 2020 Russia-Saudi Arabia oil price war in the midst of the COVID-19 pandemic. The uncertain global financial market conditions may further affect the financial market conditions in China. For example, the PRC financial market has experienced significant volatility as a result of the escalating trade tension between China and the United States in 2020. Since 2020, COVID-19, a novel strain of coronavirus, has spread worldwide. In March 2020, the World Health Organization declared the COVID-19 a pandemic. The pandemic has resulted in border lockdowns, mandatory quarantines, travel restrictions, and the temporary closure of stores and facilities in China and other parts of the world. While various measures have been relaxed and many aspects of daily life gradually returned to normal routine in China, certain areas of the world remain subject to such heightened measures and extended delay or suspension of some business activities. Please refer to “Risk Factors – Risks Relating to Our Business and Industry – We are subject to risks relating to natural disasters, pandemics, epidemics, acts of war or terrorism or other factors beyond its control, including the ongoing COVID-19 pandemic.”

Each of our business segments may be affected by the general economic and market conditions in different ways: intensified market competition could result in lower commission and fee income from the Group’s securities brokerage businesses and investment banking businesses and higher volatility of securities trading volume, which would adversely affect the stability of revenue from our securities brokerage business; poor financial conditions could affect the fair value of our financial assets, which could impact the profitability of our proprietary trading business; market volatility and adverse economic conditions may affect the performance of the assets or funds we manage and reduce our assets under management, which could adversely affect our ability to receive asset management fees or performance fees; and unfavourable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate finance activities, which could result in significant declines in securities trading volume and other corporate finance activities and hence adversely affect the revenue and profitability of our investment banking business.

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

As a securities firm with principal business in the PRC and Hong Kong, we are subject to extensive regulation in these jurisdictions. The regulatory authorities limit the types of products and services we may offer by imposing capital requirements and restrict our business activities by specifying the types of securities we may invest in. Relevant regulatory authorities make inspections, examinations and inquiries on a regular basis in respect of our compliance with relevant regulatory requirements. For example, the CSRC periodically evaluates and assigns a regulatory rating to each securities firm, including us, based on the firm’s risk management capabilities, competitiveness and compliance with regulatory requirements. In addition, we may be subject to various regulations as well as inspections and restrictions imposed by relevant regulatory authorities in other countries and jurisdictions where we operate our business. Any failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may limit our ability to carry out pilot programs and conduct new businesses and may harm our reputation.

For eleven consecutive years from 2010 to 2020, we were rated “Class A Grade AA” by the CSRC, the highest rating ever received by PRC securities firms during that period. However, there is no assurance that we will be able to maintain such regulatory rating in the future. A downgrade of our regulatory rating may limit our ability to conduct certain businesses or prevent us from obtaining permits or approvals for our new businesses or subject us to a higher risk capital reserve ratio or a higher securities investor protection fund reserve ratio. Any future incidents of non-compliance may have a material and adverse effect on our business, financial condition, operating results, reputation and prospects.

In recent years, regulatory authorities have continuously promulgated new rules and guidances. These new rules and guidances may directly affect our business strategies, competitiveness and prospects. Changes in the rules and regulations could impose more stringent requirements or additional limitations on the business that we conduct, require us to modify our existing business practices and lead to increased compliance costs or competition. Our failure to adapt to the changing regulatory environment and maintain our compliance and competitiveness could have a material and adverse effect on our business, financial condition, operating results and prospects.

Restrictions on foreign equity participation in China's capital market and securities market have been removed gradually in recent years. Under the current framework, qualified foreign-invested securities firms have to obtain full securities business licenses to extend business beyond the previously permitted underwriting and sponsoring of equity and debt, foreign stock brokerage, bond brokerage and proprietary trading. The influx of foreign capital will further increase competition in the market, and may have an adverse impact on our business, financial conditions, operating results and prospects.

We face intense competition in existing and new businesses.

Our businesses face intense competition from numerous and diverse competitors. We primarily compete with other major securities firms in the PRC and Hong Kong. We compete with other financial institutions such as commercial banks and insurance companies across different business sectors in the PRC. In recent years, in the wake of the development of Internet finance, the online businesses of securities firms also face competition from non-traditional financial institutions such as Internet companies.

Commercial banks, insurance companies and other financial institutions have been venturing into the traditional business sectors of securities firms and competing with securities firms in a number of areas by continuous innovation in their products and services. By leveraging their operational network, client base, capital base, and other advantages, commercial banks pose particular threats to securities firms in bond underwriting, financial advisory services, sales of wealth management products, and other domains. In addition, gradually relaxed PRC securities regulations and the trend towards mixed operations in the PRC's financial industry may enable new competitors (such as foreign financial institutions) to enter into the securities industry of the PRC.

Some of our competitors may have certain competitive advantages over us, such as more abundant financial resources, greater brand awareness, more diverse product and service offerings and more advanced IT systems. They may also be more experienced than us and offer a broader range of services and financial products. In addition, they may have more competitive compensation and incentive mechanisms, with more qualified, capable and experienced employees. We may also face competition from competitors in certain business sectors or geographical regions. While these competitors may have less comprehensive offering of products or services or less extensive geographic coverage than us, they may have more experience, better brand recognition and other competitive advantages in their business sectors or geographical regions. Our failure to compete effectively against our competitors may have a material and adverse effect on our business, financial condition, operating results and prospects.

In addition, along with the evolvement of the PRC securities industry, innovative products and services may emerge in the market. We may not be able to maintain our current market share or leading position due to certain difficulties or challenges we may face in offering new products or services. Our failure to maintain our competitive advantages in this business environment will have a material and adverse effect on our businesses, financial condition, operating results and prospects.

Our businesses also face intense price competition. We will likely continue to experience pricing pressures in the future as some of our competitors seek to increase their market shares by lowering prices. In recent years, there has been considerable pressure on commission rates for some of our businesses. In particular, our securities brokerage commission rates have been in decline in recent years, and may further decline due to intense competition in the future. Brokerage clients generally use the Internet and other alternative trading systems to execute electronic trading, putting more pressure on brokerage commission rates. In addition, underwriting fees, financial advisory fees and asset management fees also face pricing pressure. We believe that we will continue to face pressure on commission rates if some of our competitors further lower their prices in order to increase their market shares. Please see "Risk Factors – Risks relating to our business and industry – We generate a significant portion of our revenue from our securities brokerage and securities financing business, and reduction in our clients' trading activities or decrease in our brokerage

commission rates could materially and adversely affect our operating results and financial condition” and “Risk Factors – Risks relating to our business and industry – Our investment banking business is subject to various risks and there can be no assurance that the income level of our investment banking business can be sustained.”

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

We are subject to capital adequacy, risk indicator, liquidity and other requirements imposed by the CSRC, the SAC and other regulatory authorities and self-regulatory organisations. According to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) made by the CSRC, effected on 1 November 2006 and revised on 16 June 2016 and 20 March 2020, the risk coverage ratio (namely net capital divided by the sum of various risk capital reserves times 100%) of a securities company shall not be less than 100%; the capital leverage ratio (namely core net capital divided by total on-and off-balance-sheet assets times 100%) of a securities company shall not be less than 8%; the liquidity coverage ratio (namely high-quality liquid assets divided by net cash outflow for the next 30 days times 100%) of a securities company shall not be less than 100%; and the net steady fund rate (available steady funds divided by required steady funds times 100%) of a securities company shall not be less than 100%. Pursuant to the Administrative Measures above, we have established a dynamic net capital and other risk control indicators monitoring mechanism in an endeavor to comply with statutory regulatory standards on risk control indicators based on net capital.

We are also subject to various liquidity requirements. For example, in June 2016 and effective from 1 October 2016 and in March 2020, the CSRC amended the Administrative Measures above and supporting ancillary measures. These amendments adjust the calculation basis and method of net capital and risk capital reserve, adds a capital leverage ratio indicator (net core capital to total off-and on-balance-sheet assets), sets a mandatory leverage ratio of no less than 8% and sets up indicators for specific business lines. According to the SAC, both the liquidity coverage ratio (ratio of good quality liquid assets to estimated net cash outflow for the following 30 days) and the net stable funding ratio (ratio of available stable funding to stable funding required by business) shall reach 100% by 30 June 2015.

We have been in compliance with regulatory requirements in terms of major risk control indicators based on net capital. Our leverage ratio was 3.36x, 4.08x and 4.38x as at 31 December 2018, 2019 and 2020, respectively¹. These requirements may restrict the scope and scale of our business activities, and may require us to adjust our existing business in order to be eligible for new and innovative products and services. Our failure to meet such requirements could lead to sanctions, fines, penalties or other disciplinary actions, including a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may have a material and adverse effect on our business, financial condition, operating results, reputation and prospects.

We generate a significant portion of our revenue from our securities brokerage and securities financing businesses, and reduction in our clients’ trading activities or decrease in our brokerage commission rates could materially and adversely affect our operating results and financial condition.

Changes in the macro market and the intensified competition may have an adverse effect on our securities brokerage and securities financing business. Since we have been generating a significant portion of our revenue from our securities brokerage and securities financing business, any decline or slowdown in our securities brokerage and securities financing business could have a material and adverse effect on our total revenue and other income.

¹ Leverage ratio is calculated by dividing the total assets (net of accounts payable to brokerage clients) by equity attributable to the shareholders of the Company.

Revenue from our securities brokerage business consists primarily of commissions and fees that we generate by executing trades for our clients. Revenue from our securities financing business consists primarily of interest income generated from margin financing and securities lending as well as repurchase business. Revenue from our securities brokerage business depends significantly on the turnover of trading that we execute for our clients and the brokerage commission rates. Revenue from our securities financing business depends on the size as well as the interest rate of margin financing and securities lending. Trading turnover of securities brokerage business and the financing needs for securities financing business are subject to factors including general economic conditions, macroeconomic and monetary policies, conditions of A share market, fluctuations in interest rates and investor behavior, all of which are beyond our control. Any unfavorable market condition may significantly affect our securities trading, resulting in a decrease in turnover or trading scale and in turn lead to a decrease in the fees and commission income from our securities brokerage business or a drop in the interest income from our securities financing business.

In addition, the increasing competition in the PRC securities industry may lead to a decrease in our brokerage commission, which will adversely affect our brokerage business. For example, some of our competitors have launched Internet account opening services ahead of us, which significantly lowered the commission rates charged to brokerage clients, resulting in us correspondingly lowering commission rates to maintain competitiveness. We believe that price competition and pricing pressure will continue as investors are increasingly unwilling to pay for brokerage services, and some of our competitors seek to obtain market share by further reducing brokerage fees and commissions. Moreover, the PRC securities markets are emerging markets characterised by short-term investing behavior among investors, which has resulted in a higher frequency of trading activities by our clients. However, as the capital markets in the PRC develop and our clients become more sophisticated, they may reduce the frequency of their trading activities in the future, which could adversely affect the commissions we derive from our brokerage business. As a result, there is no assurance that our brokerage commission rates and commission income scale can be sustained at current levels.

If we cannot successfully maintain and expand our client base and operational network, our securities brokerage business and its revenue could be materially and adversely affected.

The securities brokerage business is highly competitive and we have to maintain our client base and attract new clients. As at 31 December 2020, the total number of our capital accounts reached 9 million, accounting for 3.47% of the market, ranking tenth in the PRC securities industry. However, there is no assurance that we will be able to continue to maintain or grow our client base. If we are unable to address the needs of our clients by maintaining high-quality client service, continuing product innovation, providing value-added services, or if we otherwise fail to meet our clients' demands or expectations, we may lose our existing clients to our competitors or fail to attract new clients. As a result, our business, financial condition and operating results may be adversely affected.

We serve clients of our securities brokerage business and manage client relationships primarily through our network of securities branches. As at 31 December 2020, we had 21 branch companies and 292 securities branches in 30 provinces, autonomous regions and directly-administered municipalities in the PRC. However, there is no assurance that we will be successful in further expanding our operational network due to regulatory changes, difficulties in managing a relatively larger pool of retail brokerage staff and other unforeseeable factors. We may not be able to maintain our current market-leading position in the number of operating outlets and any failure to maintain our competitiveness may have a material and adverse effect on our business, financial condition, operating results and prospects.

In addition, the prevalence of online retail brokerage business in the PRC exposes us to competitive pressure on commission rates from small securities firms with relatively low costs and securities firms which carry out brokerage services primarily through online trading platforms. If we are unable to provide differentiated products and services, our business, financial condition, operating results and prospects may be adversely affected.

Our investment banking business is subject to various risks and there can be no assurance that the income level of our investment banking business can be sustained.

Market fluctuations and changes in regulatory policies may adversely affect our investment banking business. Our investment banking business has been and may in the future be adversely affected by economic and market conditions. Poor economic conditions may adversely affect investor confidence, resulting in significant industry-wide declines in the size and number of securities offerings and merger and acquisition (“M&A”) transactions, which could have an adverse effect on our revenue from and profit margin for the investment banking business. Adverse capital market conditions and market volatility may also cause delays to, or the termination of, securities offerings underwritten or sponsored by us and M&A transactions advised by us, which may materially and adversely affect our revenue from the investment banking business. In addition, along with the continuous evolvement of securities market in the PRC, new products and services in the investment banking business may emerge. We may not be able to maintain our current market share due to certain difficulties or challenges we may face in offering new products or services, which could have a material and adverse effect on our investment banking business.

Transactions we are involved in are subject to uncertainties due to regulatory approvals. Initial public offerings (“IPOs”) in the PRC and certain types of M&A transactions of listed companies are subject to approvals by various regulatory authorities. Approval processes and the results and timing of the various inspections conducted by the CSRC from time to time are beyond our control and may cause substantial delays to, or the suspension of, securities offerings underwritten by us or M&A transactions advised by us. We may experience delay in, or suspension of, securities offerings underwritten and sponsored by us as a result of unfavorable market conditions such as the market volatility in the future.

Furthermore, the PRC regulatory requirements on investment banking business continue to change, including the implementation of a compensation regime in which sponsors are required to compensate investors for their losses resulting from false disclosures in IPOs before issuers’ compensation liability can be determined. In addition, PRC securities firms are facing increasing challenges in terms of deal execution, client development, pricing and underwriting capabilities. If we are unable to adjust our business practices and strategies to meet these new challenges, we may not be able to compete effectively in the PRC securities industry, which could in turn materially and adversely affect income from our investment banking business. In addition, if we are under investigation due to fraud committed by our clients, the CSRC may suspend the review of the proposed offerings underwritten or sponsored by us, which may adversely affect our business and operating results.

In addition, in acting as a sponsor in securities offering and listing, we may be subject to regulatory sanctions, fines, penalties or other disciplinary actions or may be otherwise legally liable in the PRC and in Hong Kong and/or our reputation may be affected due to inadequate due diligence in connection with compliance supervision after the offerings and transactions, fraud or misconduct committed by issuers, other sponsors, their agents or our staff, misstatements and omissions in disclosure documents, or other illegal or improper activities that occur during the course of the underwriting process, which may adversely affect our business and operating results. The issuers of the bonds underwritten or sponsored by us may default due to various reasons, which may result in investors’ losses and therefore subject us to the litigation and reputational risks. Our investment banking business may also be affected by new rules and regulations, changes in the interpretation or enforcement of existing rules and regulations relating to the underwriting and sponsorship of securities offerings.

We generally receive underwriting commissions for securities offerings and advisory fees for M&A transactions upon the successful completion of the transactions. If a transaction is not completed as scheduled or at all for any reason, we may not receive underwriting commissions or financial advisory fees for services that we have provided in a timely manner or at all, which could adversely affect our operating results.

Our proprietary trading business is subject to market volatility and our investment decisions.

We trade equity and fixed-income securities as well as derivatives. Our equity and fixed-income securities are subject to market volatility and, therefore, the results of our securities trading activities are generally related to the condition of the PRC securities markets. We also engage in derivative instruments transactions, including stock options, treasury futures and stock index futures and etc. We generally use derivative instruments to hedge against the impact of price volatility on our investment portfolio or adjust the risk exposure of the investment portfolio. However, currently the types of financial investment products available in the PRC securities market remain limited. Although stock index futures provide investors with tools for arbitrage and managing risks related to their investments, such financial instruments for PRC investors remain inadequate, which may make it difficult for us to fully hedge against fluctuations in the price of our investment portfolio, and the derivatives that we use may not be as effective as we would expect. In addition, we are exposed to risks associated with derivatives contracts we enter into, which could result in losses to us. Since the derivative markets on the exchanges are unstable and the over the counter (“OTC”) derivative markets are under-developed, we may lack experience in managing new products or trading derivative products.

The performance of our proprietary trading business relies on our investment judgments and decisions based on our assessment of current and future market conditions. We closely monitor the market value of our investment portfolio and actively refine the structure of our portfolio based on market conditions and internal risk management guidelines. However, our investment decisions are made based on our judgment, which involves management discretion and assumptions. If our decision-making process fails to effectively minimize losses while capturing gains, or our forecasts do not conform to actual changes in the market conditions, our proprietary trading business may not achieve the investment returns we anticipate or may even suffer material losses, all of which could materially and adversely affect our business, financial condition and operating results.

In addition, the values of certain classes of our assets, such as our available-for-sale financial assets, are marked to market. A decline in the value of our available-for-sale financial assets can result in the recognition of impairment losses if management determines that such decline in value is not temporary. This impairment recognition shall be based on evaluation of several factors. If we recognise impairment losses, our operating results will be adversely affected.

A significant decline in the size of our AUM or regulatory changes may materially and adversely affect our asset management business.

We charge asset management fees based on the size of each asset management plan under our management. Investment performance may affect investment sentiment of clients and therefore affect our AUM, which in turn affects our management fee income. In addition, the management fee income from actively managed products is higher than income from our non-actively managed products, therefore our management fee income is also affected by the structure of our managed assets. Limited investment options and hedging strategies, as well as market volatility, in the PRC could limit our ability to offer stable returns to our clients, cause us to lose clients and require us to make provisions for the decrease in the value of our investments. Volatility of the PRC capital market, adverse economic conditions or the failure to outperform our competitors or the market may reduce the value of our managed assets or affect the performance of our managed assets or funds, which could adversely affect the amount of asset management fees or performance rewards that we receive. Moreover, with the enforcement of the Interim Provisions on Operation and Management of Privately-raised Assets Management Business of Securities or Futures Institutions (《證券期貨經營機構私募資產管理業務運作管理暫行規定》) since 18 July 2016, the upper limit on the leverage ratio of the structured asset management products has been significantly reduced, and it imposes higher requirement on our own funds when conducting asset management business, which may have an adverse effect on our relevant business.

Moreover, we have high proportion of “channel-based business” in our asset management business. Relevant regulators may promulgate new regulations to restrict the “channel-based business” in the PRC. Therefore, there are still uncertainties on whether we can complete the transition to actively-managed business rapidly while maintaining our AUM. In addition, we may not be able to maintain or increase our AUM or our asset management fee income due to increased competition from insurance companies, trust companies, commercial banks and other competitors. We are still in the process of developing and growing our asset management business. If we fail to increase our AUM, we may not be able to take advantage of potential benefits, such as economies of scale and investment strategies with larger capital requirements. This lack of scale in AUM could adversely affect our competitiveness, operating results and financial condition.

We may suffer significant losses from our exposure to credit risks.

The credit risks we are exposed to in our business include credit risks incurred from our counterparties, securities issuers of our investment targets and clients of securities financing and futures business. We have net long trading positions in various fixed income securities as part of our investment, and face credit risks that the issuers of the relevant securities may default. There can be no assurance that there will be no default in the bonds we invest in the future. We also face credit risks as counterparty in derivative contracts. In addition, we conduct OTC trades as counterparty to our clients, to provide them with customised products or services, such as OTC options and equity return swaps. As there is no exchange or clearing agent for these contracts, we may be subject to the credit risk of the counterparties. Any significant non-payment or default by a client or counterparty could adversely affect our financial condition, operating results and cash flows. Although we regularly review our credit exposure to specific clients or counterparties and to specific industries that we have credit concerns for, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to obtain any relevant information with respect to the credit risks of our clients and counterparties.

Our securities financing business is subject to the risks that a client may fail to perform its payment obligations or that the value of collaterals held by us to secure the obligations might become inadequate. We may mandatorily liquidate our clients' collaterals if they are unable to fulfill their payment obligations as scheduled, or if their collateral ratios are lower than our minimum thresholds due to fluctuations in market prices of the collaterals while failing to replenish such collaterals. Such mandatory liquidation mechanism may subject us to significant losses or litigation risks. In addition, the ability to carry out mandatory liquidation of client positions is adversely affected by market volatility. If the market price of securities which we hold as collaterals decreases sharply for an extended period, and when we are unable to liquidate clients' positions in a timely manner due to the daily price fluctuation limitation on the A share market and relevant A share stock suspensions, we may incur significant losses. Moreover, similar to other securities firms, we also accept restricted stocks as collaterals for our collateralised stock repurchase business. If we fail to mandatorily liquidate collaterals comprising restricted stocks within the expected period, we may be subject to significant losses. In addition, the mandatory liquidation mechanism may trigger disputes between clients and us and subject us to litigation risks or significant legal expenses.

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

Our exposure to interest rate risk is primarily associated with our interest income, interest expenses and fixed income investments. We earn interest income from (i) securities brokerage and securities financing business, including margin financing and securities lending, collateralised stock repurchase and repurchase agreement transactions; (ii) bank balances, including cash held on behalf of brokerage clients as well as our own bank deposits; and (iii) other businesses. We also pay interests on accounts payable to brokerage clients, financial assets sold under repurchase agreements and various indebtedness, including borrowings, short-term commercial papers, structured notes, corporate bonds and subordinated bonds, etc. In addition, we hold net fixed income securities positions, whose market prices are directly affected by the prevailing interest rates. Significant interest rate fluctuations could reduce our interest income or returns on fixed income investments, or increase our interest expenses, all of which could materially and adversely affect our business, financial condition and operating results.

Restrictions on our credit financing capability and high level of indebtedness may adversely affect our business.

We rely on bank and other external borrowings and bond offerings to fund a significant portion of our working capital requirements. Our financial condition, liquidity and business operations will be adversely affected to the extent we are not able to pay back or repay our debt in a timely manner because of the unavailability of internal resources or inability to obtain alternative financing.

Even if we are able to honor our debt repayment obligations, the amount of debt we borrow could also adversely affect us in a number of ways, including:

- limiting our ability to obtain any necessary financing in the future for working capital, strategic investment, debt repayment requirements or other purposes;
- limiting our flexibility in business planning or reacting to changes in our business;

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

Our interest expenses may increase along with the increase of our borrowings.

We have incurred and expect to continue to incur a significant amount of interest expense relating to our borrowings, including corporate bonds, subordinated bonds, short-term financing instruments, financial assets sold under repurchase agreements and others. We also incur interest expenses from accounts payable to brokerage clients and placements from banks and other financial institutions in our operation activities. We may continue to incur substantial amount of debts, and our interest expenses may continue to increase. Any such increase could adversely affect our business, financial condition, operating results and prospects.

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

Our liquidity conditions may be adversely affected by the decrease in the cash generated from our operating activities, increased regulatory requirements on capital, substantial investment, market volatility, the loss of client confidence or other factors. Maintaining adequate liquidity is crucial to our business operations as we need large amounts of cash to continue expanding our margin financing and securities lending, collateralised stock repurchase, investment management and other business activities. We meet our liquidity needs primarily through cash generated from operating activities and debt financing. There can be no assurance that we may generate positive cash flows from operating activities in the future.

A reduction in our liquidity could reduce the confidence of our clients or counterparties in us, which may result in the loss of business and client accounts. In addition, we will need to satisfy various liquidity requirements in order to maintain or expand our scope of business, especially innovative products and services. Failure in the future to comply with the mandatory liquidity requirements, or any heightened requirements for specific businesses, may result in penalty measures imposed by the SAC, including self-regulatory measures and disciplinary action. In addition, the liquidity coverage ratio will be incorporated into the risk control indicator system for securities firms, and the failure of the liquidity coverage ratio to comply with the indicator requirement may subject us to the regulatory measures by the CSRC. Any of these could have a material and adverse effect on our business development and reputation.

Furthermore, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time when we seek to sell the assets to increase liquidity, as is likely to occur in a liquidity crunch or other market crisis. When cash generated from our operating activities is not sufficient to meet our liquidity or regulatory capital needs, we must seek external financing. During periods of disruption in the credit and capital markets, potential sources of external financing could be limited and our borrowing costs could increase. Such financing may not be available on acceptable terms or at all due to unfavorable capital market conditions.

Our IT systems may be subject to cyber-attacks or risks arising from any system failures or deficiencies.

Our operations rely heavily on our IT systems to record and accurately process a large number of transactions and matters across numerous and diverse markets and different business segments in a timely manner. Our system for processing securities transactions is highly automated. Our IT and related computer systems may be damaged or interrupted by human errors, unauthorised access such as cyber-attacks, natural hazards or disasters or similarly disruptive events. A prolonged interruption or failure of our information processing or communications systems would limit our ability to process transactions. This would impair our ability to serve our clients and execute transactions on behalf of clients and for our own accounts, which could materially and adversely affect our competitiveness, financial condition and operating results.

The proper functioning of our core IT systems, online trading platform, data processing system, mobile APPs, risk management and legal and compliance system and other data processing systems, together with the communication networks between our headquarters and branches and the storage of our clients' confidential and personal information and other information, are critical to our business and our ability to compete effectively. We have established multi-tiered backup systems to carry on principal functions or restore our systems in the event of a catastrophe or failure of our systems, including those caused by human errors. However, there can be no assurance that our operations will not be materially disrupted if any of our systems fails. In addition, if our trading system is unable to process all trading orders when the securities market experiences high volatility, we may be subject to client complaints, litigations or damage on our reputation.

Our resources and technical sophistication may not be adequate to prevent all types of cyber-attacks or other disruptions to or failures of our IT and related computer systems. A cyber-attack or IT and related computer systems failure could adversely affect our daily operations and lead to the loss of sensitive information, including our own proprietary business information and sensitive information of our customers. Our business continuity procedures, disaster recovery systems and security measures to protect against network or IT and computer systems failure or interruption may not be effective, and we may not anticipate, prevent or divert the material and adverse effect on our business, financial condition and operating results in the event of such failure or interruption.

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

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

We face the risk of operational failure, limited capacity or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any operational failure or termination of the particular financial intermediaries that we use could adversely affect our ability to execute transactions, serve our clients and manage our exposure to risks. In addition, as our inter-connectivity with our clients grows, we will increasingly face the risks of operational failure with respect to our clients' systems such as personal computers, mobile devices and tablets, as well as connectivity to and compatibility with our clients' systems. Any operational failure may lead to loss of our clients and give rise to complaints or litigations against us and in turn have a material and adverse effect on our goodwill, financial condition, operating results and reputation.

We distribute third-party financial products which may involve high risks, and if we are unable to identify, fully understand or disclose these risks, our reputation, relationships with clients, business and prospects may be damaged.

In addition to our own asset management products, we also distribute financial products developed by third-party financial institutions (such as fund management companies, trust companies and commercial banks in the PRC). As a third-party distributor, we are not subject to any investment losses or default liabilities incurred from third-party financial products. However, we may receive complaints from or be sued by clients which may in turn have an adverse effect on our reputation and business. In addition, the structure of certain types of these third-party financial products (such as trust schemes and structured OTC products) is complicated and involves various risks, including credit, interest rate, liquidity and other risks. Our risk management policies and procedures may fail to identify the risks of such financial products in a sufficient and effective manner, and our sales personnel may not disclose such risks to our wealth management clients adequately. Consequently, clients may invest in financial products that exceed their investment risk tolerance and investment preferences and suffer substantial losses which subject us to the complaints and prosecution of clients. Our reputation, relationships with clients, business and prospects may therefore be materially and adversely affected.

We are exposed to risks relating to our investments in the wealth management products, trust schemes and asset management schemes provided by various financial institutions.

Our proprietary investment portfolio includes wealth management products, trust schemes and asset management schemes provided by commercial banks, trust companies, funds companies and securities firms (including ourselves) in China. As at 31 December 2018, 2019 and 2020, the balance of our investments in such wealth management products, trust schemes and asset management schemes were RMB13,779 million, RMB14,267 million and RMB18,590 million, respectively, representing 16%, 11% and 10% of the total investment balance of our proprietary trading for the respective periods.

The income generated from our investments in various wealth management products, trust schemes and asset management schemes is generally fixed, which may subject us to credit risk. These wealth management products, trust schemes and asset management schemes generally adopt credit enhancement measures, such as guarantees and structural enhancement. However, we are not able to monitor and do not otherwise have control over the counterparties' investment portfolio composition and investment strategies. In addition, there is no assurance that we can correctly anticipate the development of business operations or financial conditions of the commercial banks, securities firms, trust companies, fund companies or the ultimate borrowers, which could be negatively affected by various factors beyond our control, under which situation, the issuers' capacity to repay the principal, fulfill their commitment to deliver the expected investment return or the guarantors' capacity to undertake the guarantee obligations (if applicable), could be materially and adversely affected and we may not be able to recover the principal of and interest on these investments. Also, we do not have direct recourse to the ultimate borrowers in the underlying transactions, and we can only exercise our rights under the related contracts to require the product issuers or scheme managers to perform their obligations, and demand compensation for our losses (if applicable) from the product issuers or scheme managers and the financial institutions that provide relevant guarantee.

Furthermore, because the guarantees and collaterals are not provided to us but to product issuers or scheme managers, we may not be able to directly claim any security interests on these guarantees or collaterals.

While the regulatory authorities currently generally do not prohibit securities firms to invest in wealth management products, trust schemes and asset management schemes provided by various financial institutions, there can be no assurance that there will not be material and adverse changes to the applicable regulations in the future. Any material and adverse regulatory changes could cause the value of our investment portfolio to decline, and may in turn materially and adversely affect our business, financial condition and results of operations.

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

We are committed to providing new products and services in order to strengthen our leading market position in the PRC securities industry. We continuously expanded our business to include trading of physical precious metals, foreign exchange, OTC options, online collateralised stock repurchase and other businesses in recent years, and further convert our offline business to online business. We will continue to expand our product and service offerings as permitted by relevant regulatory authorities, transact with new clients not in our traditional client base and enter into new markets. Meanwhile, we expect to further expand our overseas business. These activities expose us to new and increasingly challenging risks, including, but not limited to:

- we may have insufficient experience or expertise in offering new products and services and dealing with inexperienced counterparties and clients may harm our reputation;
- we may be subject to stricter regulatory scrutiny, or increased tolerance of credit risks, market risks, compliance risks and operational risks;
- we may be unable to provide clients with adequate levels of service for our new products and services;
- our new products and services may not be accepted by our clients or meet our profitability expectations; and
- our new products and services may be quickly copied by our competitors so that their attractiveness to our clients may be diluted.

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

We are subject to risks related to overseas expansion.

We expect to expand our overseas operations based on business strategy, but the development of global business may face additional risks, including, among others:

- we may have difficulties in managing overseas operations, including the compliance with various regulatory and legal provisions in different jurisdictions;
- risks of fluctuations in the overseas financial markets;
- challenges in providing products, services and supports in the overseas financial markets;
- challenges in managing distribution channels and overseas distribution network effectively;
- the accounting treatment differences between various jurisdictions;
- potential adverse effects of taxation;
- foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and
- local political and economic instability or civil unrest.

If we are unable to effectively avoid or mitigate these risks, we may have difficulties to expand our overseas business, which could have a material and adverse effect on our business, financial condition, operating results and prospects.

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

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

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

We may be mainly exposed to the following risks: market risk, credit risk and liquidity risk. Policies are expected to be principally positive fiscal policies, prudent monetary policies and policies on stabilising economic growth. However, the COVID-19 pandemic will pose certain negative effect. In addition, political turmoil in some regions in the world and trade friction will lead to great downward pressure on macro-economy, which will bring certain pressure on our operation. Currently, we follow our comprehensive internal risk management framework and procedures to manage our risks, primarily including market risk, credit risk, liquidity risk, compliance risk and operational risk. For example, we established white list and update this list to promote the timeliness and security of our products,

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

Our operations depend on senior management and key staff and our business may be adversely affected if we are unable to retain them or find their replacements.

The success of our business primarily depends on the stability of our senior management and our ability to attract and retain key personnel who possess in-depth knowledge and understanding of the PRC financial markets. If there are significant personnel changes in our senior management, and we are unable to find replacement, we may not be able to execute our existing business strategy effectively or may have to adjust our existing business, which may materially and adversely affect our business prospects. The aforementioned key personnel include members of our mid-level management, experienced investment and trading managers, risk management officers, research analysts, IT specialists, licensed sponsor representatives and other personnel. Therefore, we devote considerable resources to recruiting and retaining these personnel. However, the competition for quality professionals is rather intense in the PRC capital market and we face increasing competition in recruiting and retaining these individuals as other securities firms and financial institutions are competing for the same pool of talent. Intense competition may require us to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely affect our financial condition and operating results. In addition, we may be unable to attract or retain these personnel which may in turn affect the fulfillment of our business objectives and also materially affect our business and prospects.

If any of our senior management or other key staff joins or establishes a company in competition with our business, we may lose some of our clients, which may have a material and adverse effect on our business.

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

We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, clients or other third parties, including, among others, unauthorized trading, misuse or disclosure of confidential information, providing false information, forging corporate seals, illegal fundraising, improper transfer of interests and insider trading. These incidents of misconduct could subject us to financial losses and sanctions imposed by governmental authorities, as well as adversely affect our reputation. In addition, alleged or actual employee misconduct could result in investigations or prosecutions of the employees engaged in the subject activities or litigation or regulatory sanctions against us, which could cause reputational harm, litigation costs and management distraction to us regardless of whether we are held liable.

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

We may be subject to litigation, legal proceedings, administrative or regulatory penalties, disciplinary actions or regulatory investigations and may not always be successful in defending ourselves against such claims, investigations or proceedings.

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct. We may be subject to lawsuits and arbitration applications in the ordinary course of our business. Actions brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these legal actions, the costs of such defense may be significant to us.

We operate in a highly regulated industry. Any failure to comply with the applicable regulatory requirements could result in fines, penalties or other disciplinary actions and we may also be subject to inquiries, investigations, and legal proceedings by regulatory and other governmental agencies. In market downturns of the PRC capital market, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase. We have in the past been found to be non-compliant with regulatory requirements and may, from time to time, become the subject of investigations by regulatory authorities overseeing our operation. Material incidents of non-compliance, a significantly adverse judgment, arbitration award or regulatory action against us or a disruption in our business arising from adverse adjudications in proceedings against our directors, senior management or key staff would have a material and adverse effect on our liquidity, business, financial condition, operating results and prospects.

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

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

We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis.

We are required to comply with applicable PRC and overseas anti-money laundering, anti-terrorism laws and other regulations. The PRC Anti-money Laundering Law and the relevant anti-money laundering laws and regulations in Hong Kong require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other things, establish or designate an independent anti-money laundering department, establish a client identification system in accordance with relevant rules, record the details of client activities and report suspicious transactions to relevant authorities.

While we have adopted relevant policies and procedures aimed at detecting and preventing the use of our business platforms to facilitate money laundering activities and terrorist acts, such policies and procedures may not completely eliminate instances in which we may be utilised by other parties to engage in money laundering and other illegal or improper activities. In the event that we fail to fully comply with applicable laws and regulations, the relevant government agencies may freeze our assets or impose fines or other penalties on us. There can be no assurance that there will not be failures in detecting money laundering or other illegal or improper activities which may adversely affect our business reputation, financial condition and operating results.

Our substantial amounts of deferred tax assets and level 2 financial assets are subject to accounting uncertainties.

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. We believe that the substantial amounts of our deferred tax assets and level 2 financial assets are subject to accounting uncertainties and therefore warrant particular attention.

Our deferred tax assets increased from RMB963.9 million as at 31 December 2019 to RMB1,725.5 million as at 31 December 2020. Based on our accounting policies, deferred tax assets are recognised in case of timing differences between the carrying amount of assets for financial reporting purpose and the amounts used for taxation purposes. The realisation of a deferred tax asset mainly depends on our management's judgment as to whether sufficient future taxable profits will be available in the future. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

For financial reporting purposes, we categorize fair value measurements of financial assets and liabilities into level 1, level 2 or level 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement. As at 31 December 2020, we had RMB151,187.3 million of level 2 financial assets. Compared to level 1 financial assets, we use valuation technique to estimate the fair value of level 2 financial assets and the fair value measurements for these assets using other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. When estimating fair value using valuation technique, we consider observable inputs and market data, such as yield curve of interest rate products, foreign currency exchange rate, implied volatility, among other things. Changes in these factors will affect the estimated fair value of our level 2 financial assets and therefore these assets face uncertainty in accounting estimation.

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

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

We are subject to risks related to the use of "CITIC" brand.

Since our establishment, we have been using the "CITIC" brand, which provide substantial support to us in enhancing our brand awareness and carrying out our business.

The "CITIC" brand name is also used by the CITIC Group and its affiliated companies. If any of them commits any action that damages the "CITIC" brand name, or any negative publicity is associated with any of these entities, our reputation, business and growth prospects could be harmed, which could adversely affect our operating results and financial condition.

Currently, we are licensed by the CITIC Group to use its certain registered trademarks in the respective registration areas expiring in 2023. There can be no assurance that the CITIC Group will continue to grant license to us after the expiry of the current license. If we cannot renew the license, we may have to use new trademarks which lack public awareness. As such, change of trademarks may have an adverse effect on maintaining existing customer relationship or developing new customer resources.

Our historical growth may not be indicative of our future performance.

Our historical growth rate and results may not be indicative of our future growth or performance. There is inherent risk in using our historical financial information to project or estimate our financial performance in the future, as it only reflects our past performance under particular conditions. We may not be able to sustain our historical growth rate, revenue, gross profit margin and return on net assets for various reasons, including, but not limited to, deterioration in the market conditions of the financial services industry in the PRC, macro-economic measures taken by the PRC Government to manage economic growth and intensified competition among PRC securities firms.

In addition, our financial and operating results may not meet the expectations of public market analysts or investors. Our revenue, expenses and operating results may vary from period to period due to a variety of factors beyond our control. As a result of these and other factors, there can be no assurance that our future revenues will increase or that we will continue to be profitable. Accordingly, investors should not rely on our historical results as an indication of our future financial or operating performance.

We may not be able to manage our risks successfully through the use of derivatives, and derivative transactions could expose us to unexpected risks and potential losses.

We engage in derivative transactions as part of our investment businesses, and use derivative instruments such as stock index futures to reduce the impact of price volatility in our investment portfolio and hedge certain market risks. We enter into derivative transactions based on the business judgement of our management. We may not be able to effectively identify risks or successfully use derivative instruments to reduce our risk exposure. The derivative contracts that we enter into expose us to unexpected market, credit and operational risks that could cause unexpected losses. When a transaction remains unconfirmed or during any delay in settlement, we are subject to heightened credit and operational risks and, in the event of default, we may find it more difficult to enforce the relevant contracts. In addition, the secondary market for derivatives is volatile, and we may be inexperienced in dealing with new products or making appropriate judgements in trading derivative products.

Unsatisfactory investment performance of our asset management schemes may materially and adversely affect our asset management business.

We receive asset management fees based on the size of each asset management scheme under our management. In addition, we may earn performance fees from our asset management schemes. Investment performance affects the size of assets under our management and is one of the most important factors in maintaining our existing clients and attracting new clients and competing for new asset management businesses. Market volatility and limitations in investment options and hedging options in the PRC could limit our ability to provide stable returns for the portfolios under management and cause us to lose clients. Adverse market conditions or economic conditions, failure to out-perform competitors or the market may reduce the size of the assets under our management or affect the performance of the funds we manage. Unsatisfactory investment performance could adversely affect our revenue and growth because:

- existing clients might withdraw funds from our asset management business, which would lower our income from asset management business;
- clients may request that we lower our fees for asset management services, particularly in an intensely competitive industry; and
- our performance fees, which are based on the investment performance of our asset management business, may decline.

In addition, with the release of *Guiding Opinions on Regulating Asset Management Business of Financial Institutions* (《關於規範金融機構資產管理業務的指導意見》) in April 2018, financial institutions in China are required to deleverage their business and reduce channel-based asset management services. Under these tightening requirements, our asset management business is under more stringent regulatory scrutiny, which may result in additional downside pressure for us to further expand our AUM.

Our asset management fees or the market share of our asset management business may decrease due to increased competition from insurance companies, fund companies, trust companies and other competitors. This could adversely affect our income from asset management business, and have a material and adverse effect on our business, operating results and business prospects.

We may have negative net cash flow from operating activities.

We cannot assure you that we will not have negative net cash flow from operating activities in the future. If we incur significant negative net cash flow from operating activities, our working capital may be subject to constraints, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

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

We are committed to providing new products and services in order to strengthen and enhance our market position in the securities industry. We will continue to expand our product and service offerings as permitted by relevant regulatory authorities, transact with new clients not in our traditional client base and tap into new markets. Meanwhile, it's expected that we will develop our overseas business and these activities expose us to new and potentially increasingly challenging risks, including, but not limited to:

- our clients or potential clients may not be receptive to our new product and service offerings;
- we may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and clients;
- we may be subject to stricter regulatory scrutiny, or decreased tolerance of credit risks, market risks, compliance risks and operational risks;
- we may be subject to reputational concerns arising from dealing with less sophisticated counterparties and customers;
- we may not be able to successfully enhance our risk management capabilities and IT systems to identify and mitigate all the risks associated with the new products and services, new customers and new markets;
- we may be unable to provide clients with adequate levels of service for our new products and services;
- we may be unable to hire and train additional qualified personnel to support the offering of a broader range of products and services;
- we may be unable to obtain sufficient financing from internal and external sources to support our business expansion;
- we may have difficulties in managing overseas operations, including the compliance with various regulatory and legal provisions in different jurisdictions;
- challenges in providing products, services and supports in overseas markets;
- the accounting treatment differences between various jurisdictions;
- potential adverse effects of taxation;
- exchange losses; and
- local political and economic instability or civil strife.

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

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

In addition to organic growth, we may also seek opportunities to expand through acquisition of products or services complementing its existing business operations. Acquisitions involve a number of risks and present financial, managerial and operational challenges, including potential disruption of our ongoing business and distraction of management, difficulties with integrating IT, financial and human resources systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations. We may not be able to realise any anticipated benefits or achieve the synergies we expect from these acquisitions. Our clients may react unfavourably to our acquisition strategy, and we may incur additional liabilities due to acquisitions. We may also be unable to enforce contractual and legal rights effectively for the limited intellectual property right protection by the laws, or any changes in the laws, regulations and policies of local governments that could adversely affect our business, financial condition, results of operations and prospects.

The process of integrating the business may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our results of operations as a result of difficulties or risks, including:

- unforeseen legal, regulatory, contractual and other issues;
- difficulty in standardising information and other systems;
- difficulty in realising operating synergies;
- diversion of management’s attention from our day-to-day business; and
- failing to maintain the quality of services that we have historically provided.

We are subject to risks relating to natural disasters, pandemics, epidemics, acts of war or terrorism or other factors beyond its control, including the ongoing COVID-19 pandemic.

Natural disasters, pandemics, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions we conduct our business. Some regions in China may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, potential wars or terrorist attacks or are susceptible to epidemics, such as Severe Acute Respiratory Syndrome (“SARS”), avian influenza, H5N1 influenza, H1N1 influenza or H7N9 influenza, or, most recently, the novel coronavirus temporarily named COVID-19 pandemic by the World Health Organization.

Severe communicable disease outbreaks could result in a widespread health crisis that could materially and adversely affect economic systems and financial markets. For example, the ongoing COVID-19 pandemic has affected China and many countries in the world and there have been increasing initial infection and fatality rates across the world. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Several cities in China where we have operations were placed under a lockdown with restrictions on travel and movement of people as well as prolonged closures of workplaces in an effort to curb the spread of COVID-19, and the pandemic also caused the delay in resumption of local business in the PRC after the Chinese New Year holiday. The pandemic may create further negative economic impact in the PRC and cause increasing concerns over the forward-looking assessment of the performance of the PRC securities market. Furthermore, the outbreak of COVID-19 has escalated into a major public health crisis on a global scale, which resulted and may continue to result in increased volatility in the global markets and affect investment sentiment.

The global outbreak of COVID-19 has created negative economic impact and increased volatility in the PRC and global market, which may in turn adversely affect our business. This has significantly disrupted many aspects of the economy of China and given the high uncertainties associated with the COVID-19 pandemic. While various measures have been relaxed and many aspects of daily life gradually returned to normal routine in China, it is difficult to predict how long the pandemic will continue to develop and the extent to which we may be affected. There is no assurance that the outbreak will not lead to decreased demand for services we provide. The outbreak may also adversely affect the abilities of us to keep normal

operations and provide uninterrupted services to our customers. The COVID-19 pandemic may further create negative economic impact and increase volatility in the PRC and global market and continue to cause increasing concerns over the prospects of the financial market in PRC. For further details, please refer to “Description of the Group – Recent Development – Impact of COVID-19 pandemic.”

Our business operations are also subject to risks arising from natural disasters, such as typhoons, floods and earthquakes. Serious natural disasters may result in a tremendous loss of lives and injury and destruction of assets and disrupt our business and operations. Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our business network and destroy our markets.

Any of these factors above and other factors beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

Certain facts and statistics are derived from publications that have not been independently verified by us, the Arrangers, the Dealers or their respective advisors.

Facts and statistics in this Offering Circular relating to the PRC economy and the industries in which we operate are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Arrangers, the Dealers or their respective advisors and therefore none of us, the Arrangers, the Dealers and their respective advisors make any representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to ineffective calculation and collection methods and other problems, investors should not place undue reliance upon the facts and statistics contained herein, which may be inaccurate or may not be comparable to facts and statistics produced for other economies.

RISKS RELATING TO THE PRC AND HONG KONG

The PRC’s economic, political and social conditions, as well as government policies could affect our business and prospects.

A substantial majority of our assets are located in China, and a substantial majority of our revenue is derived from our businesses in China. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in China. The PRC economy differs from the economies of developed countries in many respects, including, among other things, government involvement, level of economic development, growth rate, foreign exchange controls and resources allocation. After rapid economic growth, the Chinese government now put more emphasis on optimising economical structure and improving economic growth. To reach this goal, the PRC government may exercise significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies in certain circumstances. In recent years, the PRC government has implemented measures emphasising the utilisation of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may negatively affect us. For example, our financial condition and results of operations may be adversely affected by government policies on the securities markets in China or changes in tax regulations applicable to us. If the business environment in China deteriorates, our business in China may also be materially and adversely affected.

China has been one of the world’s fastest growing economies as measured by GDP growth in the past 30 years and has become the world’s second largest economy by gross GDP since 2010. However, there is no assurance that China’s economy can sustain historical growth rates in the future. In the past several years, the uncertainties brought by the Brexit as well as the ongoing China-U.S. trade disputes have collectively increased downward pressure on the PRC’s economic growth. If the economic growth of China continued to slow down, our business, financial condition, results of operations and prospects will be materially and adversely affected.

We are subject to the risks from an economic downturn in Hong Kong.

Besides our businesses in China, we also conduct business in Hong Kong. Our performance and the quality and growth of our assets are dependent on the overall economy in Hong Kong. As a result, any downturn in the Hong Kong economy may adversely affect our business, financial condition and results of operations. Since the second half of 2008, the global credit markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions which have originated from liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. In particular, the sovereign debt crisis in some European countries (including Greece, Ireland, Italy, Spain, Portugal and Cyprus) since early 2010 and the downgrading of the credit rating of the United States' sovereign debt in August 2011 have contributed to an economic slowdown in most economies around the world, substantial volatility in financial markets globally and the tightening of liquidity in global financial markets.

Although the global economy has shown varying degrees of recovery in 2015, there is still a great deal of uncertainty in relation to continued economic recovery globally and in Hong Kong and the PRC. In addition, civil unrest and an uncertain political environment in Hong Kong from early 2019 may impact Hong Kong's economy and result in an economic slowdown or downturn. Any significant or sudden economic slowdown, recession or other adverse changes or developments in the local social and economic environment or political arrangements in Hong Kong may adversely affect our business, financial condition and results of operations.

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

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

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

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

Investors may experience difficulties in effecting service of legal process and enforcing judgements against us and our directors, supervisors and management.

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

On July 14, 2006, Hong Kong and the Supreme People's Court entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "Arrangement") pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. The Arrangement will be abolished by the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "2019 Arrangement"), which was entered into by Hong Kong and the Supreme People's Court on 18 January 2019 and will come into force will be announced by both parties after the Supreme People's Court issues the judicial interpretation and the Hong Kong SAR completes the relevant procedures. With some exceptions, the 2019 Arrangement applies to the reciprocal recognition and enforcement of effective judgments in civil and commercial cases between courts of the Mainland and Hong Kong, and also applies to the reciprocal recognition and enforcement of effective judgments on civil compensation in criminal cases. The outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

Government control of currency conversion may adversely affect the value of your investments and limit our foreign exchange transactions.

Substantially all of our revenue and expenses are denominated in Renminbi, which is currently not a freely convertible currency. The PRC government limits the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. A portion of our cash may be required to be converted into U.S. dollars in order to meet our foreign currency needs, including cash payments on the Notes. The PRC's foreign exchange regulations allow payments of current account items, including profit distributions, interest payments and expenditures from trade, to be made in foreign currencies without prior approval, subject to certain procedural requirements. However, the PRC government may restrict future access to foreign currencies for current account transactions at its discretion.

On the other hand, foreign exchange transactions under capital account in the PRC, including repayment of indebtedness denominated in foreign currencies, such as the Notes, continue to be not freely convertible and require the approval of the SAFE. The ability of us to satisfy our obligations under the Notes depends upon our ability to obtain and remit sufficient foreign currency to overseas. We need to present certain documents to the SAFE, its authorised branch, or the designated foreign exchange bank, for approval before we can obtain and remit foreign currencies out of the PRC. If we for any reason fail to meet any of the PRC legal requirements for remitting foreign currency payments, we may be unable to satisfy our obligations under the Notes.

These limitations could affect our ability to obtain foreign currencies through debt and equity financing, or to obtain foreign currencies for capital expenditures and may limit our ability to satisfy other foreign currency-denominated obligations, if any.

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

While we generate most of our revenue in China, we also offer securities products and services in Hong Kong to overseas clients. A portion of our revenue, expenses and bank borrowings is denominated in Hong Kong dollars and U.S. dollars, although our functional currency is the Renminbi.

As a result, fluctuations in exchange rates, particularly between the Renminbi, Hong Kong dollar and U.S. dollar could affect our profitability and may result in foreign currency exchange losses of our foreign currency-denominated assets and liabilities.

The exchange rate of Renminbi to the U.S. dollar is under a managed floating exchange rate system and has gradually risen over the past decade. On 11 August 2015, the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi to the U.S. dollar to make the exchange rate of Renminbi more market-based. The modified mechanism allows traders to consider the closing exchange rate in the previous trading day when they quote the midpoint price for Renminbi against the U.S. dollar. As a result, the midpoint price of Renminbi against the U.S. dollar depreciated by 4.8% from August 10 to 27 August 2015, with further fluctuations in 2016, 2017 and 2018. In the first three months of 2019, Renminbi experienced appreciation in value against the U.S. dollar from 6.8755 to 6.7112 but then headed for depreciation again; in August 2019, Renminbi fell below 7.0 to the U.S. dollar for the first time since 2008. We cannot predict how the Renminbi will fluctuate in the future. Any significant fluctuation in the value of the Renminbi against foreign currencies could lead to fluctuation in the value of our foreign currency-denominated revenue and assets and adversely affect our business, financial condition, results of operations, prospects and our ability to make payments in foreign currencies.

RISKS RELATING TO THE NOTES AND THE GUARANTEE

The Notes and the Guarantee are unsecured obligations.

The Notes and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Notes and payment under the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Notes.

The Notes and the Guarantee will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, and effectively subordinated to the Issuer's and the Guarantor's secured debt to the extent of the value of the collateral securing such indebtedness.

The Notes and the Guarantee will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, whether or not secured. The Notes will not be guaranteed by any of the Issuer's or the Guarantor's subsidiaries, and the Issuer and the Guarantor may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or the Guarantor. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer or the Guarantor is subject to various restrictions under applicable laws.

Each of the Issuer's and the Guarantor's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or the Guarantee or make any funds available therefore, whether by dividends, loans or other payments. The Issuer's and the Guarantor's right to receive assets of any of the Issuer's and the Guarantor's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or the Guarantor are creditors of that subsidiary). Consequently, the Notes and the Guarantee will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and the Guarantor's subsidiaries, other than the Issuer, and any subsidiaries that the Issuer or the Guarantor may in the future acquire or establish.

The Notes and the Guarantee are the Issuer's and the Guarantor's unsecured obligations, respectively, and will (i) rank equally in right of payment with all the Issuer's and the Guarantor's other present and future unsecured and unsecured indebtedness; and (ii) be effectively subordinated to all of the Issuer's and the Guarantor's present and future secured indebtedness to the extent of the value of the collateral securing such obligations. Accordingly, claims of secured lenders, whether senior or junior, with respect to assets

securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders ratably with all of the Guarantor's other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular, any applicable supplement to the Offering Circular or any Pricing Supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities.

Any failure to complete the relevant registrations or filings with the NDRC relating to the issue of the Notes may have adverse consequences for the Guarantor, the Issuer and/or the investors of the Notes.

According to the Notice on Promoting the Reform of the Administration of the Registration of Foreign Debt of by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the "NDRC Circular") issued by the NDRC on 14 September 2015, PRC enterprises and their overseas controlled entities shall procure the registration of any debt securities with a maturity of more than one year or medium to long term loans issued or incurred outside the PRC with the NDRC prior to the issue of the securities or drawings under the loans, and notify the particulars of the relevant issues or drawings within 10 working days after the date of issuance or drawing. Thus, the Guarantor shall make the registration of the Notes to be issued prior to the relevant issue date (the "NDRC Pre-Issue Registration") and file the requisite information relating to the issue of the Notes with the NDRC within 10 working days after the relevant issue date (the "NDRC Post-Issue Filing"). In the worst case scenario, failure to complete the NDRC Pre-Issue Registration or the NDRC Post-Issue Filing may result in it being unlawful for the Guarantor or the Issuer to perform or comply with any of its obligations under the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

Each of the Issuer and the Guarantor will undertake under the Terms and Conditions of the Notes to perform the issuance registration and filing as required by laws and regulations as applicable to it from time to time. A failure to complete any applicable registration and filing procedure will not only constitute a breach of the relevant laws and regulations (which may carry administrative penalties), but will also constitute an event of default pursuant to which the Notes could be accelerated.

If the Guarantor fails to submit the relevant Deed of Guarantee for registration with SAFE or complete such registration with SAFE within the time period prescribed by SAFE, there may be logistical hurdles for cross-border payment under the Guarantee.

If the Guarantor fails to submit the relevant Deed of Guarantee for registration with SAFE or complete such registration with SAFE within the time period prescribed by SAFE, there may be logistical hurdles for cross-border payment under the Guarantee. The Guarantor will enter into a Deed of Guarantee in respect of each Tranche of Notes issued under the Programme. Pursuant to such Deed of Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under such Tranche of Notes and the Trust Deed. The Guarantor is required to submit for registration the relevant Deed of Guarantee and other documents to the Beijing Branch of SAFE for registration in accordance with the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) within the prescribed timeframe after the execution of such Deed of Guarantee. Although the non-registration does not render the Guarantee of the Notes ineffective or invalid under PRC law, SAFE may impose penalties on the Guarantor. The Guarantor intends to use its all reasonable endeavours to complete the registration of the relevant Deed of Guarantee on or before the Registration Deadline (as defined in the Terms and Conditions of the Notes).

Following the occurrence of a Non-Registration Event (as defined in the Terms and Conditions of the Notes), the holder of any Notes of the relevant Tranche will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes on the Put Settlement Date at 100 per cent. of their nominal amount, together with accrued interest to such Put Settlement Date.

The administration of the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) may be subject to a certain degree of executive and policy discretion by SAFE. There is no assurance that the registration of the relevant Deed of Guarantee with SAFE can be completed by the Guarantor or that future changes in PRC laws and regulations will not have a negative impact on the validity and enforceability of the relevant Deed of Guarantee in the PRC.

The Notes may be represented by Global Notes or Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes (in the case of Bearer Notes) or Global Certificates (in the case of Registered Notes). Such Global Notes and Global Certificates will be deposited with a common depository for Euroclear and Clearstream or lodged with the CMU (each of Euroclear, Clearstream and the CMU, a “**Clearing System**”). Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing System(s).

While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer, or failing which, the Guarantor will discharge its payment obligations under the Notes by making payments to the relevant Clearing System(s) for distribution to their account holders or in the case of the CMU, to the persons for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules.

A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates.

Holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes or Global Certificates will not have a direct right under the respective Global Notes or Global Certificates to take enforcement action against the Issuer or the Guarantor in the event of a default under the relevant Notes but will have to rely upon their rights under the Trust Deed.

Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

In relation to any issue of Notes which have a denomination consisting of a minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds a nominal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The Issuer may not be able to redeem the Notes upon the due date for redemption thereof.

If specified in the relevant Pricing Supplement, the Issuer may, at its option, at maturity, at Noteholders' option or following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes) or a Non-Registration Event (as defined in the Terms and Conditions of the Notes), be required to redeem all or some of the Notes. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Notes could constitute an event of default under the Notes, which may also constitute a default under the terms of the Issuer's or the Group's other indebtedness.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed.

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At such times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in their respective debt agreements (if any), or the Notes, there could be a default under the terms of these agreements, or the Notes, which could cause repayment of the debt of the Issuer or the Guarantor to be accelerated.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in the Notes, or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Guarantor, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, those debt agreements may contain cross-acceleration or cross-default provisions. As a result, the default by the Issuer or the Guarantor under one debt agreement may cause the acceleration of repayment of debt or result in a default under its other debt agreements, including the Notes. If any of these events occur, there can be no assurance that there would be sufficient assets and cash flows to repay

in full all the indebtedness of the Issuer or the Guarantor, or that it would be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer or the Guarantor.

The ratings of the Programme may be downgraded or withdrawn.

The Programme has been assigned a rating of “Baa1” by Moody’s and a rating of “BBB+” by Fitch. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer and the Guarantor to perform their respective obligations under the Notes and the Guarantee and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time. A reduction or withdrawal of the ratings may adversely affect the market price of the Notes and the Issuer’s or the Guarantor’s ability to access the debt capital markets.

Any downgrading of the Guarantor’s corporate ratings, or those of its subsidiaries, by rating agencies could adversely affect the Group’s business and the Group’s liquidity.

Any adverse revision to the Guarantor’s corporate ratings, or those of its subsidiaries, for domestic and international debt by rating agencies such as Fitch, Moody’s and S&P may adversely affect the Group’s business, its financial performance and the trading price of the Notes. Further, the Group’s ability to obtain financing or to access to capital markets may also be limited, thereby lowering its liquidity.

The Issuer may be treated as a PRC resident enterprise for PRC tax purposes and certain withholding taxes may be applicable.

Under the PRC Enterprise Income Tax Law (“EIT law”) and its implementation rules, enterprises established outside the PRC whose “de facto management bodies” are located in China are considered “resident enterprises” for PRC tax purposes.

The implementation rules define the term “de facto management body” as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation specified certain criteria for the determination of the “de facto management bodies” for foreign enterprises that are controlled by PRC enterprises.

At the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered a PRC tax resident enterprise for the purpose of EIT Law. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. If the Issuer is deemed to be a PRC resident enterprise for EIT purposes, the Issuer generally would be subject to the PRC enterprise income tax at the rate of 25.0 per cent. on its worldwide income.

Furthermore, if the Issuer is deemed to be a PRC resident enterprise, the Issuer would be obligated to withhold PRC income tax on payments of interest or redemption premium (if any) at a rate of 10 per cent. for non-PRC resident enterprises, or at a rate of 20 per cent. for non-PRC resident individuals. In addition, any gain realised by such investors from the transfer of the Notes may be regarded as being derived from sources within the PRC and may accordingly be subject to a 10.0 per cent. PRC income tax for non-PRC resident enterprises, or a 20.0 per cent. PRC income tax for non-PRC resident individuals. Furthermore, because the Guarantor is a PRC tax resident, the Guarantor will be required to withhold PRC tax on payments under the Guarantee with respect to interest or any redemption premium at the above rates regardless of whether the Issuer is treated as a PRC tax resident. The PRC income tax liability may be reduced under applicable income tax treaties, such as the arrangement for avoidance of double taxation with Hong Kong. However, it is unclear whether in practice non-resident Noteholders would be able to obtain the benefit of income tax treaties entered into between PRC and their countries.

On 23 March 2016, the Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) issued the Circular of Full Implementation of Replacing Business Tax with Value-Added Tax Reform (Caishui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》) (“Circular 36”), which introduced a new value-added tax (“VAT”) from 1 May 2016. According to Circular 36, which was amended on 11 July 2017 and 20 March 2019, VAT is applicable where the entities or individuals provide financial services

such as providing the loans within the PRC. The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. It is further clarified under Circular 36 that the loans refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of loans under Circular 36, the issuance of Notes may be treated as the Noteholders providing the loans to the Issuer, which thus shall be regarded as the financial services for VAT purposes. In the event the Issuer is deemed to be a PRC resident enterprise in the PRC by the PRC tax authorities, the Noteholders may be regarded as providing financial services within the PRC and consequently, the amount of interest payable by the Issuer to any non-resident Noteholders may be subject to withholding VAT at the rate of 6%. In addition, in that case the holders of the Notes shall also be subject to the local levies at approximately 12% of the VAT payment. Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

Subject to certain exceptions, the Issuer and Guarantor will be required to pay additional amounts with respect to any such PRC withholding taxes. The request to pay additional amounts will increase the cost of servicing the Notes and will adversely impact the cash flows of the Issuer and Guarantor. In addition, if any PRC tax is imposed on the disposition of the Notes, an investor's investment return would be materially and adversely affected.

The insolvency laws of British Virgin Islands, the PRC and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Notes are familiar.

As the Issuer and the Guarantor are incorporated under the laws of the British Virgin Islands and the PRC, respectively, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve British Virgin Islands or PRC insolvency laws, respectively, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

The Trustee may request the Noteholders to provide an indemnity, security and/or prefunding to its satisfaction.

In certain circumstances, including, without limitation, giving of notice to the Issuer and the Guarantor pursuant to Condition 10 of the Terms and Conditions of the Notes and taking any steps and/or actions and/or instituting any proceedings pursuant to Condition 12 of the Terms and Conditions of the Notes, the Trustee may, at its sole discretion, request the Noteholders to provide an indemnity, security and/or prefunding to its satisfaction before it takes any steps and/or actions and/or institutes any proceedings on behalf of the Noteholders. The Trustee shall not be obliged to take any such steps and/or actions and/or to institute any such proceedings if not indemnified, secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity, security or prefunding to it, in breach of the terms of the Trust Deed or the Terms and Conditions of the Notes and, in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Notes to take such actions directly.

Decisions that may be made on behalf of all holders of the Notes may be adverse to the interests of individual holders of the Notes

The Terms and Conditions of the Notes contain provisions for calling meetings of holders of the Notes to consider matters affecting their general interests. These provisions permit defined majorities to bind all holders of the Notes, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of holders of the Notes may be adverse to the interests of the individual Noteholders. The Terms and Conditions of the Notes also provide that the Trustee may (but shall not be obliged to), without the consent of Noteholders, agree to any modification (other than with respect to certain reserved matters) of the Terms and Conditions of the Notes or any of the provisions of the Trust Deed, the relevant Deed of Guarantee or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of Noteholders and to any modification of the Trust Deed, the Terms and Conditions of the Notes, the relevant Deed of Guarantee or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any

mandatory provision of applicable law. In addition, the Trustee may (but shall not be obliged to), without the consent of the Noteholders, authorise or waive any proposed breach or breach (other than a proposed breach or breach relating to the subject of certain reserved matters) of the Terms and Conditions of the Notes or any of the provisions of the Trust Deed, the relevant Deed of Guarantee or the Agency Agreement. The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to the substitution of the Issuer's or the Guarantor's successor in business or certain subsidiary of the Issuer or the Guarantor in place of the Issuer or the Guarantor as principal debtor or guarantor under the Notes. In the case of such a substitution, the Trustee may, without the consent of the Noteholders, agree to a change of the governing law of the Notes, the Trust Deed, the relevant Deed of Guarantee if such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

The PRC government has no obligations under the Notes.

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Notes in lieu of the Issuer or (as the case may be) the Company. This position has been reinforced by the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) (the "Joint Circular") promulgated on 11 May 2018 which took effect on the same day, and the Guiding Opinion on Strengthening the Asset and Liability Constraints of State-Owned Enterprises (中共中央辦公廳、國務院辦公廳關於加強國有企業資產負債約束的指導意見) promulgated on 13 September 2018 which took effect on the same day.

The majority shareholders of the Guarantor are state-owned enterprises, which only have limited liability in the form of its equity contribution in the Guarantor. The PRC government's holding of the shares of such shareholders does not necessarily correlate to, or provide any assurance as to, the Issuer's or Guarantor's financial condition. As such, the PRC government does not have any payment obligations under the Notes issued under the Programme. Such Notes are solely to be repaid by the Issuer (or the Guarantor) as an independent legal person.

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES UNDER THE PROGRAMME

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Dual Currency Notes have features which are different from single currency issues.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of partly-paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalments could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include such features.

The regulation and reform of “benchmark” rates of interest and indices may adversely affect the value of Notes linked to or referencing such “benchmarks”.

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate (“LIBOR”), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (“Benchmarks”), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Notes referencing or linked to such Benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any international reforms in making any investment decision with respect to any Notes linked to or referencing a Benchmark.

The value of, and return on, Floating Rate Notes linked to or referencing LIBOR or other similar indices may be adversely affected in the event of a permanent discontinuation of LIBOR or other similar indices.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Terms and Conditions of the Notes provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where such Original Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser, the Terms and Conditions of the Notes provide that the Issuer may vary the Terms and Conditions of the Notes, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Terms and Conditions of the Notes also provide that an Adjustment Spread will be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate.

The Adjustment Spread is (i) the spread, formula or methodology which is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body (which may include a relevant central bank, supervisory authority or group of central banks/supervisory authorities), (ii) if no such recommendation has been made, or in the case of an Alternative Rate, the spread, formula or methodology which the Independent Adviser determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate, or (iii) if the Independent Adviser determines that no such spread is customarily applied, the spread, formula or methodology which the Independent Adviser determines and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate, as the case may be.

Accordingly, the application of an Adjustment Spread may result in the Notes performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate in accordance with the terms and conditions of the Notes.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or the Independent Adviser is unable, to determine a Successor Rate or Alternative Rate before the next Interest Determination Date, the Rate of Interest for the next succeeding Interest Period will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Rate of Interest will be the initial Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or, the Independent Adviser has failed, to determine a Successor Rate or Alternative Rate in respect of any given Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods, as necessary.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event is likely to result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the floating rate Notes, in effect, becoming fixed rate Notes.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of floating rate Notes is to be determined, the Terms and Conditions of the Notes provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the floating rate Notes.

Inverse Floating Rate Notes are typically more volatile than conventional floating rate debt.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

Fixed Rate Notes and Floating Rate Notes (as defined in the Terms and Conditions of the Notes) may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the

spread on the Fixed Rate Notes may be less favourable than then-prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than prices for conventional interest-bearing securities do.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index-Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index-Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

RISKS RELATING TO THE MARKET GENERALLY

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer, the Guarantor and the Group. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the Hong Kong Stock Exchange for the listing of the Programme, and for the permission to deal in, and for the listing of, Notes issued under the Programme during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

The liquidity and price of the Notes following this offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Group and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There can be no assurance that these developments will not occur in the future.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities

markets and the securities of issuers in other countries, including China. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

Exchange rate risks and exchange controls may result in a Noteholder receiving less interest or principal than expected.

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Governments and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a Noteholder may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer to perform their respective obligations under the Notes and the credit risks in determining the likelihood that payments will be made when due under the Notes. Such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will not be lowered, suspended or withdrawn by the rating agencies in the future if, in their judgment, the circumstances so warrant. Neither the Issuer nor the Guarantor is obligated to inform holders of the Notes of any such suspension, revision, downgrade or (where rating maintenance as set out in Condition 4(d) of the Terms and Conditions of the Notes is not applicable) withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may materially and adversely affect the market price of the Notes and the Issuer's and the Guarantor's ability to access the debt capital markets.

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

Notes denominated in Renminbi ("**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not completely freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC.

Renminbi is not freely completely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

Remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

In respect of Renminbi foreign direct investments (“**FDI**”), the People’s Bank of China (“**PBOC**”) promulgated the Administrative Measures on Renminbi Settlement of Foreign Direct Investment (《外商直接投資人民幣結算業務管理辦法》) (the “**PBOC FDI Measures**”) on 13 October 2011, which was amended on 5 June 2015, as part of PBOC’s detailed Renminbi FDI accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. On 14 June 2012, PBOC issued a circular setting out the operational guidelines for FDI, which was amended on 5 June 2015. Under the PBOC FDI Measures, special approval for FDI and shareholder loans from PBOC, which was previously required, is no longer necessary. In some cases however, post-event filing with PBOC is still necessary.

On 3 December 2013, the Ministry of Commerce of the PRC (“**MOFCOM**”) promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (《關於跨境人民幣直接投資有關問題的公告》) (the “**MOFCOM Circular**”), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify “Renminbi Foreign Direct Investment” and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

On 13 February 2015, the SAFE promulgated the Notice on Further Simplifying and Improving Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (“**Circular 13**”), which was amended on 30 December 2019, to simplify foreign exchange rules for cross-border investments. According to Circular 13, foreign exchange registration for foreign direct investment and outbound direct investment will be exempted from the approval by the SAFE and the registration rights will be delegated from the SAFE to the qualified banks from 1 June 2015. Under the Circular 13, foreign investors could open foreign exchange accounts in qualified banks directly after providing the banks with registration documents, with no need to obtain separate government approval. By Circular 13, such qualified banks will administer foreign exchange transactions according to the registration information provided by the parties and the SAFE will indirectly supervise foreign exchange registration by verifying and inspecting the qualified banks.

On 30 March 2015, the SAFE promulgated the Circular of the SAFE on Relevant Issues Concerning the Reform of the Administrative Method of the Conversion of Foreign Exchange Funds by Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資金結算管理方式的通知》) (“**Circular 19**”), which was amended on 9 June 2016 and 30 December 2019 and relaxed the capital account settlement for all foreign invested enterprises across the nation from 1 June 2015.

On 9 June 2016, the SAFE further promulgated the Circular of the SAFE on Relevant Issues Concerning the Reform and Regulation of the Administrative Policies of the Conversion under Capital Items (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (“**Circular 16**”). According to Circular 16, in case of any discrepancy between Circular 19 and Circular 16, Circular 16 shall prevail. Circular 16 allows all foreign invested enterprises across the PRC to convert 100 per cent. (subject to future adjustment at discretion of SAFE) of the foreign currency capital (which has been processed through the SAFE’s equity interest confirmation procedure for capital contribution in cash or registered by a bank on the SAFE’s system for account crediting for such capital contribution) into Renminbi at their own discretion without providing various supporting documents. However, to use the converted Renminbi, a foreign invested enterprise still needs to provide supporting documents and go through the review process with the banks for each withdrawal. A negative list with respect to the usage of the capital and the Renminbi proceeds through the aforementioned settlement procedure is set forth under the Circular 16.

In addition, pursuant to the Notice of SA FE on Improving the Check of Authenticity and Compliance to Further Promote Foreign Exchange Control (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (“**Circular No. 3 [2017]**”) promulgated on 26 January 2017, when conducting outward remittance of a sum equivalent to more than U.S.\$50,000 for a domestic institution, the bank shall, under the principle of genuine transaction, check the profit distribution resolution made by the board of directors (or profit distribution resolution made by partners), original of tax filing form and audited financial

statements, and stamp with the outward remittance sum and date on the original of tax filing form. In addition, the domestic institution shall make up its losses of previous years under the applicable laws. On 24 March 2017 and 27 April 2017, the SAFE respectively posted two series of questions and answers on its official website, in order to further explain the Circular No. 3 [2017].

On 5 January 2018, the PBOC promulgated the Notice on Further Improving Policies of Cross-Border Renminbi Business to Promote Trade and Investment Facilitation (《中國人民銀行關於進一步完善人民幣跨境業務政策促進貿易投資便利化的通知》) (“**Circular No. 3 [2018]**”), which supports enterprises to use Renminbi in cross-border settlement and for the investment income such as profits and dividends legally obtained by overseas investors in the PRC, banks shall review relevant materials as required before processing cross-border Renminbi settlement and ensure free remittance of profits of foreign investors in accordance with the law.

As these are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

There is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer and the Guarantor to source Renminbi to finance their obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of Renminbi Notes and the Issuer’s ability to source Renminbi outside the PRC to service such Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside of the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi denominated banking services to Hong Kong residents and specified business customers. The PBOC has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On July 2010, further amendments were made to the Settlement Agreement on the Clearing of Renminbi Business (《關於人民幣業務的清算協議》) (the “**Settlement Agreement**”) between the PBOC and Bank of China (Hong Kong) Limited (the “**Renminbi Clearing Bank**”) to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of Renminbi funds between different accounts in Hong Kong. In addition, the PBOC has now established Renminbi clearing and settlement systems with financial institutions in other major global financial centres (each also a “**Renminbi Clearing Bank**”), including London, Frankfurt and Singapore to further internationalise the Renminbi.

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the settlement arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer or the Guarantor is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that either the Issuer or the Guarantor will be able to source such Renminbi on satisfactory terms, if at all.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes will be made solely (i) when Renminbi Notes are represented by Global Notes or Global Certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures, or (ii) when Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer or the Guarantor (as the case may be) cannot be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

EXCHANGE RATE

PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the markets during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange market. Since 1994, the exchange rate for the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to that of the U.S. dollar to allow the value of the Renminbi to fluctuate within a narrow and managed band based on market supply and demand and by reference to a basket of currencies. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar.

The PRC government has made further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Center, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and as the over-the-counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective from 21 May 2007, the floating band for the trading prices in the interbank spot exchange market of the Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced that in view of the recent economic situation and financial market developments in China and abroad, and as the balance of payments situation in China, it has decided to proceed further with the reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. According to the announcement, the exchange rate floating bands will remain the same as previously announced but the PBOC will place more emphasis on reflecting the market supply and demand with reference to a basket of currencies. On 12 April 2012, the PBOC announced that effective from 16 April 2012, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar would be enlarged from 0.5 per cent. to 1.0 per cent. around the central parity rate, which allows the Renminbi to fluctuate against the U.S. dollar by up to 1.0 per cent. above or below the central parity rate published by the PBOC. The PRC government may in the future make further adjustments to the exchange rate system. The PBOC announced on 15 March 2014 that since 17 March 2014, the floating band for the trading prices in the inter-bank foreign exchange spot market of Renminbi against the U.S. dollar was further expanded from 1 per cent. to 2 per cent. On each business day, the spread between the Renminbi and U.S. dollar buying and selling prices offered by the designated foreign exchange banks to their clients shall be within 3 per cent. of the published central parity of the U.S. dollar on that day, instead of 2.0 per cent.

Although the PRC governmental policies have been introduced in 1996 to relax restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, still requires the approval of the SAFE and other relevant authorities. On 11 August 2015, the PBOC adopted a more market-oriented approach and announced that the midpoint for the value of the Renminbi against the U.S. dollar would be quoted by the market makers with reference to the closing rate of the previous trading session. Following the announcement by PBOC on 11 August 2015, Renminbi depreciated significantly against U.S. dollar. In January and February 2016, Renminbi experienced further fluctuation in value against U.S. dollar. Following the gradual appreciation against U.S. dollar in 2017, Renminbi experienced a recent depreciation in value against U.S. dollar followed by a fluctuation in 2018 and early 2019. In August 2019, the People's Bank of China on 5 August 2019 set the RMB's daily reference rate above RMB7.0 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future.

On 11 December 2015, the China Foreign Exchange Trade System, a sub-institutional organisation of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. The PRC government may in the future make further adjustments to the exchange rate system. In January and February 2016, Renminbi experienced further fluctuations in value against the U.S. dollar. From 1 January 2017, according to the sampling rule of “CNY versus FX currency pair listed on CFETS”, CFETS will add 11 currencies newly listed on CFETS in 2016 and the number of basket currencies will increase from 13 to 24. Following the gradual appreciation against U.S. dollar in 2017, Renminbi experienced a recent depreciation in value against U.S. dollar followed by a fluctuation in 2018 and early 2019.

The following table sets forth for the periods indicated, certain information concerning the exchange rates between the Renminbi and U.S. dollars. The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board for and as at the periods indicated.

Period	Exchange Rate			
	Period end	Average ⁽¹⁾	High	Low
	(RMB per U.S.\$1.00)			
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.5208
2020	6.5250	6.8878	7.1681	6.5250
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March	6.5518	6.5109	6.5716	6.4648
April	6.4749	6.5186	6.5649	6.4710
May (through 14 May 2021)	6.4367	6.4507	6.4749	6.4156

Note:

- (1) Calculated by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which were calculated by averaging the daily rates for such month or part thereof.

HONG KONG

The Hong Kong dollar is freely convertible into the U.S. dollar. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar. Under existing Hong Kong law, there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of payments to U.S. residents. The Basic Law of the Hong Kong Special Administrative Region of the PRC, which came into effect on 1 July 1997, provides that no foreign exchange control policies may be applied in Hong Kong.

Although the market exchange rate of the Hong Kong dollar against the U.S. dollar was and continues to be determined by forces of supply and demand in the foreign exchange market, between 1983 and May 2005 Hong Kong maintained a fixed rate system which fixed the rate of exchange to HK\$7.80 per U.S. dollar (the “Linked Exchange Rate System”). However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year trading band from the original rate of HK\$7.80 per U.S. dollar to a new range varying between HK\$7.75 per U.S. dollar and HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the Linked Exchange Rate System. The Hong Kong government has also stated that it has no intention of imposing exchange controls and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the trading band at HK\$7.75 to HK\$7.85 per U.S. dollar or at all. As a result of the Linked Exchange Rate System, exchange rates between the Hong Kong dollar and other currencies are influenced by the value of the U.S. dollar.

The following table sets forth the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board for and as at the periods indicated.

Period	Period end	Exchange Rate		
		Average⁽¹⁾	High	Low
		(HKD per U.S.\$1.00)		
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7619	7.8270	7.7505
2017	7.8128	7.7950	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.7850
2020	7.7534	7.7562	7.7951	7.7498
2021				
January	7.7531	7.7533	7.7555	7.7517
February	7.7567	7.7529	7.7567	7.7515
March	7.7746	7.7651	7.7746	7.7562
April	7.7664	7.7691	7.7849	7.7596
May (through 14 May 2021)	7.7663	7.7673	7.7697	7.7651

Note:

- (1) Annual averages are calculated by using the average of the exchange rates on the last business day of each month during the relevant year. Monthly averages or the average for a period are calculated by using the average of the daily rates during the relevant month or period.

USE OF PROCEEDS

The net proceeds from each issue of the Notes will be used for our working capital and general corporate purposes or to refinance our existing indebtedness. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

CAPITALISATION

The following table sets out the consolidated capitalisation and indebtedness of the Group as at 31 December 2020. The table should be read in conjunction with the Group's audited consolidated financial statements as at 31 December 2020 and the notes thereto included in this Offering Circular.

	As at 31 December 2020	
	Actual	
	RMB (audited)	US\$ (unaudited)
	(in millions)	
Current borrowings		
Short-term borrowings	625	96
Short-term financing instruments payable	42,296	6,482
Placements from banks and other financial institutions	9,036	1,385
Bonds in issue with maturity within one year under other current liabilities	15,304	2,345
Non-current borrowings		
Bonds in issue	50,016	7,665
Equity		
Share capital	7,757	1,189
Other equity instruments	9,962	1,527
Reserves	27,941	4,282
Retained earnings	22,076	3,383
Equity attributable to equity holders of the Company	67,735	10,381
Non-controlling interests	336	51
Total equity	68,071	10,432
Total capitalisation⁽¹⁾	185,348	28,405

Notes:

(1) Total capitalisation equals the sum of indebtedness and total equity.

In January 2021, we completed issuance of a subordinated bond in an aggregate amount of RMB3 billion to professional investor in two tranches, including RMB2 billion with a term of 546 days and a coupon rate of 3.50% and RMB1 billion with a term of three years and a coupon rate of 3.87% respectively.

In January 2021, we completed issuance of a commercial paper in the amount of RMB4 billion with a term of 88 days and a coupon rate of 2.40%.

In January 2021, we completed issuance of a commercial paper in the amount of RMB4 billion with a term of 91 days and a coupon rate of 2.42%.

In February 2021, we completed issuance of a commercial paper in the amount of RMB4.5 billion with a term of 91 days and a coupon rate of 2.89%.

In March 2021, we completed issuance of a commercial paper in the amount of RMB4.5 billion with a term of 88 days and a coupon rate of 2.62%.

In March 2021, we completed issuance of a subordinated bond in an aggregate amount of RMB4 billion to professional investor in two tranches, including RMB3 billion with a term of 455 days and a coupon rate of 3.40% and RMB1 billion a term of three years and a coupon rate of 3.88% respectively.

In April 2021, we completed issuance of a commercial paper in the amount of RMB3.9 billion with a term of 78 days and a coupon rate of 2.35%.

In April 2021, we completed issuance of a commercial paper in the amount of RMB3.0 billion with a term of 87 days and a coupon rate of 2.35%.

In April 2021, we completed issuance of a subordinated bond in an aggregate amount of RMB5.5 billion to professional investor in two tranches, including RMB3.5 billion with a term of 456 days and a coupon rate of 3.27% and RMB2 billion with a term of three years and a coupon rate of 3.70% respectively.

In May 2021, we completed issuance of a perpetual subordinated bond in an aggregate principal amount of RMB5 billion which may be renewable every five years at our discretion. At the end of each such five-year period after the issuance, we may decide to extend the maturity date of such perpetual subordinated bond by another five years at our discretion and re-price the interest rate or alternatively pay off the outstanding amount of such perpetual subordinated bond in full. The interest rate of the first five-year period after issuance is 4.15%.

In May 2021, we completed issuance of a commercial paper in the amount of RMB4.0 billion with a term of 87 days and a coupon rate of 2.29%.

Except as disclosed in this Offering Circular, there has been no material adverse change in the Group's capitalisation since 31 December 2020. The Group may from time to time issue commercial papers, corporate bonds, subordinated bonds or other debt securities in compliance with applicable laws and regulations to finance our operation in the ordinary course of business.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement that will be issued in respect of each Tranche will be substantially in the following form, duly supplemented if (necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[MiFID II product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[UK MIFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.)¹

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**HKSE**”)) (“**Professional Investors**”) only.

Notice to Hong Kong investors: Each of the Issuer and the Guarantor confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the HKSE on that basis. Accordingly, each of the Issuer and the Guarantor confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

HKSE has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer and the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and HKSE take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

[Date]

CSCIF Asia Limited
Legal entity identifier (LEI): 254900FU76ICV5ASRV38
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
Guaranteed by CSC Financial Co., Ltd. (中信建投証券股份有限公司)
under its U.S.\$3,000,000,000
Guaranteed Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Offering Circular dated 26 May 2021 (the “**Offering Circular**”). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the Supplemental Offering Circular dated [●]] and this Pricing Supplement.

¹ For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[N.B. If the Issuer or the Guarantor has prepared any unaudited, but reviewed, condensed consolidated financial statements dated as at a date, or for a period ending, subsequent to the financial statements appearing in the latest Offering Circular, ensure that such financial statements are provided to potential investors of the relevant series of Notes as soon as practicable upon announcement of the deal.]

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [original date] [and the Supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the Supplemental Offering Circular dated [●]] and this Pricing Supplement.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

- | | | |
|---|--|---|
| 1 | (i) Issuer: | CSCIF Asia Limited |
| | (ii) Guarantor: | CSC Financial Co., Ltd. (中信建投証券股份有限公司) |
| 2 | (i) Series Number: | [●] |
| | (ii) Tranche Number: | [●] |
| | (iii) Date on which the Notes will be consolidated and form a single Series: | The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 34 below, which is expected to occur on or about [date]]/[Not Applicable] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | Aggregate Nominal Amount: | |
| | (i) Series: | [●] |
| | (ii) Tranche: | [●] |
| 5 | (i) Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)] |
| | (ii) [Net proceeds: | [●]] [Delete for unlisted issuances.] |

- 6 (i) Specified Denominations:^{2, 3} [●]
- (ii) Calculation Amount: [●]
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [*specify*/Issue Date/Not Applicable]
- 8 Maturity Date: [*Fixed rate – specify date*/*Floating rate – Interest Payment Date falling in or nearest to* [*specify month*]]⁴
- 9 Interest Basis: [[●] per cent. Fixed Rate]
- [LIBOR/EURIBOR/HIBOR/CNH HIBOR]
- +/-[●] per cent. Floating Rate]
- [Zero Coupon]
- [Index Linked Interest]
- [Dual Currency Interest]
- [*specify other*]
- (further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Dual Currency Redemption]
- [Partly Paid] [Instalment]
- [specify other]
- 11 Change of Interest Basis or Redemption/Payment Basis: [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
- [Not Applicable]

2 Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

3 If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000. In relation to any issue of Notes which are a “Global Note exchangeable to Definitive Notes” in circumstances other than in the limited circumstances specified in the Global Note, such Notes may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.

4 Note that for Renminbi and Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here and the following words should be added: “provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day.”

- 12 Put/Call Options: Relevant Events Put Option
 [Investor Put]⁵
 [Issuer Call]
 [(further particulars specified below)]
- 13 Rating Maintenance: [Applicable/Not Applicable]
- 14 Date of [Board] approval for issuance of Notes and Guarantee obtained: Issuer’s Board Resolutions dated [●] [and Guarantor’s Board Resolutions dated [●], respectively]
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)
- 15 Regulatory approval for issuance of Notes obtained:⁶ [[●]/None required] [Date]
- 16 Listing: [The Stock Exchange of Hong Kong Limited/specify other/None] *(For Notes to be listed on the HKSE, insert the expected effective listing date of the Notes)*
- 17 Method of distribution: [Syndicated/Non-syndicated]

Provisions Relating to Interest (if any) Payable

- 18 Fixed Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”]/not adjusted]
(N.B.: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount⁷
 (Applicable to Notes in definitive form)

5 For as long as Bearer Notes issued in accordance with TEFRA D are represented by a Temporary Global Note, an Investor Put shall not be available unless the certification required under TEFRA D with respect to non-U.S. beneficial ownership has been received by the Issuer or the Agent.

6 If pre-Issue registration with the NDRC is required, the date of the Registration Certificate of Enterprise Foreign Debt should be included.

7 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: “Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards in the case of Renminbi denominated Fixed Rate Notes and to the nearest HK\$0.01, HK\$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.”

- (iv) Broken Amount(s): (Applicable to Notes in definitive form) per Calculation Amount, payable on the Interest Payment Date falling [in/on]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA/ISDA) or Actual/365 (Fixed)⁸ or [specify other]]
- (vi) Determination Date(s): in each year
- [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*
- (N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration)*
- (N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
- 19 Floating Rate Note Provisions: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [[, subject to adjustment in accordance with the Business Day Convention set out in (v) below] [, not subject to any adjustment [, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (ii) Specified Interest Payment Dates: in each year [[, subject to adjustment in accordance with the Business Day Convention set out in (v) below] [, not subject to any adjustment [, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (iii) Interest Period Date: [Not Applicable] / [in each year [, subject to adjustment in accordance with the Business Day Convention set out in (v) below] [, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]] *(Not applicable unless different from Interest Payment Date)*
- (iv) First Interest Payment Date:
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (vi) Additional Business Centre(s):

⁸ Applicable to Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.

- (vii) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (viii) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issuing and Paying Agent): [●]
- (ix) Screen Rate Determination:
- Reference Rate: [●]
- (Either LIBOR, EURIBOR, HIBOR, CNH HIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
- Interest Determination Date(s): [●]
- (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), second Hong Kong business day prior to the start of each Interest period if CNH HIBOR, first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
- Relevant Screen Page: [●]
- (In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (x) ISDA Determination:
- Floating Rate Option: [●]
- Designated Maturity: [●]
- Reset Date: [●]
- (xi) Linear Interpolation: [Note Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Accrual Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xii) Margin(s): [+/-] [●] per cent. per annum
- (xiii) Minimum Rate of Interest: [●] per cent. per annum
- (xiv) Maximum Rate of Interest: [●] per cent. per annum
- (xv) Day Count Fraction: [Actual/Actual or Actual/Actual (ISDA)
Actual/365(Fixed)
Actual/365(Sterling)
Actual/360
30/360, 360/360 or Bond Basis
30E/360 or Eurobond Basis
30E/360 (ISDA) Other]
(See Condition 5 for alternatives)

- (xvi) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:
- 20 Zero Coupon Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Amortisation Yield: per cent. per annum
- (ii) Day Count Fraction:
- (iii) Any other formula/basis of determining amount payable:
- 21 Index Linked Interest Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent:
- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Issuing and Paying Agent):
- (iv) Interest Determination Date(s):
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (vi) Interest or calculation period(s):
- (vii) Specified Period(s)/Specified Interest Payment Dates:
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (ix) Additional Business Centre(s):
- (x) Minimum Rate of Interest: per cent. per annum
- (xi) Maximum Rate of Interest: per cent. per annum
- (xii) Day Count Fraction:

- 22 Dual Currency Interest Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Issuing and Paying Agent): [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

Provisions Relating to Redemption

- 23 Issuer Call: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub- paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]
- (iii) If redeemable in part: [●]
- (a) Minimum Redemption Amount: [●]
- (b) Maximum Redemption Amount: [●]
- (iv) Notice period (if other than as set out in the Conditions): *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent or the Trustee)*
- 24 Investor Put: [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]

(iii) Notice period (if other than as set out in the Conditions): [●]

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent or the Trustee)

- 25 Relevant Events Put: Condition 6(d) applies
- 26 Final Redemption Amount: [[●] per Calculation Amount/specify other/see Appendix]
- 27 Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions): [[●] per Calculation Amount/specify other/see Appendix]

General Provisions Applicable to the Notes

- 28 Form of Notes: [Bearer Notes:
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice⁹]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]
- [Registered Notes:**
- Global Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Certificate]
- 29 Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]

(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 17 (iii) and 19 (vii) relate)

⁹ If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000", the Temporary Global Note shall not be exchangeable on [●] days' notice.

- 30 Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 31 Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details. N.B.: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
- 32 Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/*give details*]
- (ii) Instalment Date(s): [Not Applicable/*give details*]
- 33 Redenomination applicable: Redenomination [not] applicable
[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
- 34 Consolidation provisions: [Not Applicable]/[The provisions annexed to this Pricing Supplement apply]
- 35 Other terms or special conditions: [Not Applicable/*give details*]
- Distribution**
- 36 (i) If syndicated, names and addresses of Managers and commitments: [Not Applicable/*give names and addresses and commitments*]
- (ii) Date of Subscription Agreement: [●]
- (iii) Stabilisation Manager(s) (if any): [Not Applicable/*give name*]
- 37 If non-syndicated, name of relevant Dealer: [Not Applicable/*give name and address*]
- 38 Total commission and concession: [●] per cent. of the Aggregate Nominal Amount
- 39 U.S. Selling Restrictions: [Reg. S Category 1/Category 2; TEFRA D/TEFRA C/TEFRA not applicable¹⁰]
- 40 Additional selling restrictions: [Not Applicable/*give details*]

¹⁰ “TEFRA not applicable” is only available for Bearer Notes with a with a term of 365 days or less (taking into account any unilateral extensions and rollovers) or Registered Notes.

Operational Information

41 Any clearing system(s) other than Euroclear or Clearstream and the relevant identification number(s): [CMU/Not Applicable/give name(s) and number(s)]

42 Delivery: Delivery [against/free of] payment

43 Additional Paying Agent(s) (if any): [●]

44 (i) ISIN: [●]

(ii) Common Code: [●]

(iii) (insert here any other relevant codes such as a CMU instrument number): [●]

45 The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars): [Not applicable/U.S.\$[●]]

46 Ratings: The Notes to be issued have been rated:

[[●]: [●]]

[[●]: [●]]

[[●]: [●]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)

47 Private Bank Rebate/Commission: [Not Applicable/give details]

[USE OF PROCEEDS

Give details if different from the “Use of Proceeds” section in the Offering Circular.]

[STABILISATION

In connection with the issue of any Tranche of Notes, one or more of the Dealers named as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in this Pricing Supplement [provided that [●] shall not be appointed or acting as the Stabilisation Manager]¹¹ may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.]

[Listing Application

This Pricing Supplement comprises the final terms required for the issue of Notes described herein pursuant to the U.S.\$3,000,000,000 Guaranteed Medium Term Note Programme of CSCIF Asia Limited.]

Responsibility

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By: _____
Duly authorised

By: _____
Duly authorised

¹¹ Include if requested by relevant Manager.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, save for the words in italics and subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement or the Trust Deed. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in these Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are issued by CSCIF Asia Limited (the “**Issuer**”) and guaranteed by CSC Financial Co., Ltd. (中信建投証券股份有限公司) (the “**Guarantor**”), and are constituted by a Trust Deed dated 21 July 2020 (as amended, restated and/or supplemented from time to time, the “**Trust Deed**”) between the Issuer, the Guarantor and The Hongkong and Shanghai Banking Corporation Limited (the “**Trustee**”, which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (these “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An agency agreement dated 21 July 2020 (as amended, restated and/or supplemented from time to time, the “**Agency Agreement**”) has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as initial issuing and paying agent, the CMU lodging and paying agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the “**CMU**”) and other agents named therein. The issuing and paying agent, the CMU lodging and paying agent, any other paying agents, the registrar, the transfer agent(s) and the calculation agent(s) for the time being are referred to below respectively as the “**Issuing and Paying Agent**”, the “**CMU Lodging and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent and the CMU Lodging and the Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**” and collectively, the “**Agents**”. For the purposes of these Conditions, all references to the Issuing and Paying Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. Each Tranche (as defined below) of Notes will have the benefit of a deed of guarantee dated on or about the relevant date of issue of the Notes (the “**Issue Date**”) (as amended, restated and/or supplemented from time to time, each a “**Deed of Guarantee**”) entered into between the Guarantor and the Trustee.

Copies of the Trust Deed, the relevant Deed of Guarantee, and the Agency Agreement are available for inspection during usual business hours (being between 9:00 a.m. and 3:00 p.m., Hong Kong time) upon prior written request and proof of holding and identity satisfactory to the Trustee, or as the case may be, the Issuing and Paying Agent at the principal office of the Trustee (presently at Level 24, HSBC Main Building, 1 Queen’s Road, Central, Hong Kong) and at the specified office of the Issuing and Paying Agent.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the receipts for the payment of instalments of principal (the “**Receipts**”) relating to Notes in bearer form of which the principal is payable in instalments (the “**Receiptholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the relevant Deed of Guarantee and are deemed to have notice of those provisions applicable to them of the Agency Agreement. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the relevant Deed of Guarantee and the Agency Agreement.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects, and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series with such Tranche of Notes and (b) identical in all respects (or in all respects except for the Issue Date, the issue price, the first payment of interest on them, the timing for submission of the NDRC Post-Issue Filing (if applicable) and the timing for completion of the Cross-border Security Registration).

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement or the Trust Deed.

1 Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the relevant Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes, Transfers of Registered Notes and Certificates

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may, subject to Conditions 2(b) and 2(f), be transferred upon the surrender (at the specified office of the Registrar or any other Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or such Transfer Agent may require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement (the “**Regulations**”). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current Regulations will be made available by the Registrar to any Noteholder upon written request and proof of holding and identity satisfactory to the Registrar.

- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Registered Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any other Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within seven business days of receipt of a duly completed form of transfer or Put Exercise Notice (as defined in Condition 6(d)) or Exercise Notice (as defined in Condition 6(f)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Put Exercise Notice, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Put Exercise Notice, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate (but free of charge to the holder and at the Issuer's expense) to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfers Free of Charge:** Transfers of Registered Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or any other Transfer Agent, but upon (i) payment by the relevant Noteholder of any tax, duties or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require); (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the Registrar or the relevant Agent being satisfied that the Regulations have been complied with.
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) after the exercise of the put option in Condition 6(d), (iii) after the exercise of the put option in Condition 6(f), (iv) during the period of 15 days prior to any date on which Notes may be called for redemption in part by the Issuer at its option pursuant to Condition 6(e), (v) after any such Note has been called for redemption or (vi) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(c)(i)).

3 Guarantee and Status

- (a) **Status of Notes:** The Notes and any Receipts and Coupons relating to them constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a), at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.
- (b) **Guarantee:** The Guarantor will in respect of each Tranche of Notes pursuant to the relevant Deed of Guarantee unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes and, if applicable, the

Receipts and the Coupons (the “**Guarantee**”). The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a), at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Guarantor.

4 Negative Pledge and Other Covenants

(a) Negative Pledge:

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor shall ensure that none of their respective Principal Subsidiaries will, create or, have outstanding, any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) at any time, with a book value exceeding 7.5 per cent. of the Consolidated Total Assets of the Guarantor in the aggregate, now owned or hereafter acquired, to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the relevant Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) Undertakings in relation to the Guarantee:

- (i) For the benefit of each Tranche of the Notes to be issued in accordance with these Conditions and the Trust Deed, the Guarantor shall execute a Deed of Guarantee in connection with such Tranche substantially in the form attached to the Trust Deed on the relevant Issue Date;
- (ii) The Guarantor shall:
 - (A) register or cause to be registered with SAFE the relevant Deed of Guarantee within the prescribed timeframe after its execution in accordance with the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) of the PRC (the “**Cross-border Security Registration**”);
 - (B) use all reasonable endeavours to complete the Cross-border Security Registration on or before the relevant Registration Deadline and obtain the relevant SAFE registration certificate relating to such Cross-border Security Registration (or any other document evidencing completion of the Cross-border Security Registration);
 - (C) deliver to the Trustee on or before the relevant Registration Deadline (x) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory of the Guarantor confirming the completion of the Cross-border Security Registration in connection with the relevant Deed of Guarantee, and (y) a copy of the relevant SAFE registration certificate relating to the Cross-border Security Registration (or any other document evidencing completion of the Cross-border Security Registration), each certified in English as a true and complete copy of the original by an Authorised Signatory of the Guarantor (the items specified in (x) and (y) together, the “**SAFE Registration Documents**”);
 - (D) comply with all applicable PRC laws and regulations in relation to the Guarantee; and
 - (E) procure the giving of notice to Noteholders in accordance with Condition 16, within 14 calendar days after the SAFE Registration Documents are delivered to the Trustee, confirming the completion of the Cross-border Security Registration.

- (c) **Financial Information:** For so long as any Note or Coupon remains outstanding:
- (i) the Guarantor will furnish the Trustee with (A) a Compliance Certificate of the Guarantor (on which the Trustee may rely conclusively as to such compliance and shall not be liable to any Noteholder or any other person for such reliance) and a copy of the relevant Audited Financial Reports within 120 days of the end of each Relevant Period prepared in accordance with the International Financial Reporting Standards (“IFRS”) (audited by an internationally recognised firm of independent accountants) of the Guarantor and its Subsidiaries and if such statements shall be in the Chinese language, together with an English translation of the same translated by (aa) an internationally recognised firm of independent accountants or (bb) a professional translation service provider and checked by an internationally recognised firm of independent accountants, together with a certificate in English signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate; and (B) a copy of the Unaudited Financial Reports within 120 days of the end of each Relevant Period prepared on a basis consistent with the audited consolidated financial statements of the Guarantor and its Subsidiaries and if such statements shall be in the Chinese language, together with an English translation of the same and translated by (aa) an internationally recognised firm of independent accountants or (bb) a professional translation service provider and checked by an internationally recognised firm of independent accountants, together with a certificate in English signed by an authorised signatory of the Guarantor certifying that such translation is complete and accurate; provided that, if at any time the capital stock of the Guarantor is listed for trading on a recognised stock exchange, the Guarantor may furnish the Trustee with, as soon as they are available but in any event not more than 14 calendar days after any financial or other reports of the Guarantor in English are filed with the exchange on which the Guarantor capital stock is at such time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in Condition 4(c)(i)(A) and 4(c)(i)(B) above;
 - (ii) the Issuer will furnish the Trustee with a Compliance Certificate of the Issuer (on which the Trustee may rely conclusively as to such compliance and shall not be liable to any Noteholder or any other person for such reliance) within 120 of the last day of the Guarantor’s financial year (being 31 December of that financial year); and
 - (iii) each of the Issuer and the Guarantor shall furnish the Trustee with a Compliance Certificate within 14 days of any request therefor from the Trustee, and the Trustee may rely conclusively on any Compliance Certificate provided as contemplated in this paragraph and shall not be liable to any Noteholder or any other person for doing so.
- (d) **Rating Maintenance:** Where Rating Maintenance is specified hereon, so long as any Note remains outstanding (as defined in the Trust Deed), save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, the Issuer and the Guarantor undertake that they will maintain a rating on the Notes by a Rating Agency.
- (e) **Issuer Activities:** The Issuer shall not, and the Guarantor will procure that the Issuer will not, carry on any business activity whatsoever other than in connection with the Notes, the Receipts and the Coupons (such activities in connection with the Notes, the Receipts and the Coupons shall, for the avoidance of doubt, include (i) establishment and maintenance of the Programme, (ii) the offering, sale or issuance of the Notes, the Receipts and the Coupons under the Programme or other bonds or notes which are, or are capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC, the on-lending of the proceeds therefrom to the Guarantor or any of the Guarantor’s other Subsidiaries and any other activities reasonably incidental thereto; and (iii) the activities directly related to the establishment and/or maintenance of the Issuer’s corporate existence).
- (f) **NDRC:** In relation to each Tranche of Notes where the NDRC Circular is applicable, the Guarantor undertakes that, it will submit the NDRC Post-Issue Filing and, as soon as reasonably practicable after such submission, provide the Trustee with (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory

of the Guarantor confirming the submission of the NDRC Post-Issue Filing; and (ii) a copy of the NDRC Post-Issue Filing setting out the particulars of filing (or any other document evidencing the submission of the NDRC Post-Issue Filing), in each case certified in English as a true and complete copy of the original by an Authorised Signatory of the Guarantor.

- (g) **Trustee Reliance:** The Trustee shall be entitled to conclusively rely on or act in reliance on any certificate, notice or document received by it as contemplated in this Condition 4 as sufficient evidence of the facts and/or matters stated therein and shall not be liable to any Noteholder and/or Couponholder or any other person for so doing.

The Trustee shall have no obligation or duty to monitor or ensure or to assist with the filing or registration of the Notes or the relevant Deed of Guarantee with SAFE on or before the Registration Deadline or the NDRC Post-Issue Filing within the timeframe specified in Condition 4(f) or to verify the accuracy, completeness, validity and/or genuineness of any documents in relation to or in connection with the Cross-border Security Registration and/or the NDRC Post-Issue Filing and/or the SAFE Registration Documents and/or the information and documents filed with the NDRC in the course of the NDRC Post-Issue Filing and/or the documents evidencing the NDRC Post-Issue Filing (if any) or to procure that any SAFE Registration Document or any other certificate, confirmation, information or document filed with the NDRC in the course of the NDRC Post-Issue Filing not in English is translated into English or, if any English translation of any document is provided or retained, to verify the accuracy of any English translation of any SAFE Registration Document or any other certificate, confirmation or document or to give notice to the Noteholders confirming the completion of the Cross-border Security Registration and/or the NDRC Post-Issue Filing, and shall not be liable to Noteholders or any other person for not doing so.

In these Conditions:

“**Audited Financial Reports**” means annual audited consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners’ equity of the Guarantor together with any statements, reports (including any directors’ and auditors’ reports) and notes attached to or intended to be read with any of them;

“**Compliance Certificate**” means a certificate in English and substantially in the form set out in the Trust Deed of each of the Issuer and the Guarantor (as the case may be) signed by any one of their respective Authorised Signatories that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer or the Guarantor (as the case may be) as at a date (the “**Certification Date**”) not more than five days before the date of the certificate:

- (i) no Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
- (ii) each of the Issuer and the Guarantor (as the case may be) has complied with all its obligations under the Trust Deed, the relevant Deed of Guarantee and the Notes or, if non-compliance had occurred, giving details of it;

“**Consolidated Total Assets**” means, as of any date, the consolidated total assets less the sum of (i) cash held on behalf of customers and (ii) customers’ refundable deposits of the Guarantor, each measured in accordance with IFRS as of the balance sheet date of the most recent Audited Financial Reports published or furnished by the Guarantor under Condition 4(c)(i) or, if later, the most recent Unaudited Financial Reports published or furnished by the Guarantor under Condition 4(c)(i);

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**Macau**” means the Macau Special Administrative Region of the People’s Republic of China;

“**NDRC**” means the National Development and Reform Commission of the PRC or its local counterparts;

“**NDRC Circular**” means the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015 and any implementation rules, reports, certificates or guidelines as may be issued by the NDRC prior to the submission of such filing, as supplemented and amended from time to time;

“**NDRC Post-Issue Filing**” means the filing of the requisite information and documents with the NDRC within the prescribed timeframe after the relevant Issue Date of the Notes in accordance with the NDRC Circular;

“**Potential Event of Default**” means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10 become an Event of Default;

“**PRC**” means the People’s Republic of China which, for the purposes of these Conditions, shall not include Hong Kong, Macau and Taiwan;

“**Rating Agency**” means (i) S&P Global Ratings, (ii) Moody’s Investors Service, Inc., or (iii) Fitch Ratings Ltd., and their respective successors.

“**Registration Business Day**” means a day, other than a Saturday, Sunday or a day on which SAFE is authorised or obligated by law or executive order to remain closed;

“**Registration Deadline**” means the day falling 90 Registration Business Days after the relevant Issue Date of the Notes;

“**Relevant Indebtedness**” means any present or future indebtedness incurred outside the PRC which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, or other securities which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) and has a final maturity of one year or more from its date of incurrence or issuance (which, for the avoidance of doubt, does not include bilateral loans, syndicated loans or club deal loans) and shall not include any structured product which is issued in the ordinary course of business and is not issued for capital raising purposes (in the event of a dispute, the Trustee may rely without inquiry on a certificate signed in good faith by any Authorised Signatory of the Issuer or the Guarantor, as the case may be, stating whether any structured product is or is not issued in the ordinary course of business and/or for capital raising purposes);

“**Relevant Period**” means (i) in relation to each of the Audited Financial Reports, each period of twelve months ending on the last day of their respective financial year (being 31 December of that financial year); and (ii) in relation to the Unaudited Financial Reports, each period of six months ending on the last day of its first half financial year (being 30 June of that financial year);

“**SAFE**” means the Beijing Branch of the State Administration of Foreign Exchange of the PRC;

a “**Subsidiary**” of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person; and

“**Unaudited Financial Reports**” means semi-annual (or any other interim reporting period required by applicable law or regulations) unaudited and unreviewed consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners’ equity of the Guarantor together with any statements, reports (including any directors’ and auditors’ reports) and notes attached to or intended to be read with any of them.

5 Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
- (i) **Interest Payment Dates:** Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, “**Interest Payment Date**” shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) **Business Day Convention:** If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) **Rate of Interest for Floating Rate Notes:** The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (in the case of CNH HIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR or HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Issuer shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Issuer with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date in question, and such offered quotations shall be notified by the Issuer to the Calculation Agent. If two or more of the Reference Banks provide the Issuer with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Issuer determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Issuer by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if

the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Issuer with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), or, if the Reference Rate is HIBOR or CNH HIBOR, at approximately 11.00 a.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Issuer it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, and such offered rates shall be notified by the Issuer to the Calculation Agent, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Benchmark Discontinuation

(x) Independent Adviser

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(b)(C)(y)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(b)(C)(aa)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(b)(C) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Guarantor, the Trustee, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it, pursuant to this Condition 5(b)(C).

If (1) the Issuer is unable to appoint an Independent Adviser; or (2) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(b)(C)(x) prior to the date which is 10 business days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate

of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(b)(C)(x).

(y) Successor Rate or Alternative Rate

If the Independent Adviser, determines that:

- (1) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(C)); or
- (2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(C)).

(z) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(aa) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(b)(C) and the Independent Adviser, determines (1) that amendments to these Conditions, the Trust Deed and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (2) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(C)(bb), without any requirement for the consent or approval of Noteholders, vary these Conditions, the Trust Deed and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by an Authorised Signatory of the Issuer pursuant to Condition 5(b)(C)(bb), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

Notwithstanding any other provision of this Condition 5(b)(C), the Calculation Agent or any Paying Agent is not obliged to concur with the Issuer or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 5(b)(C) to which, in the sole opinion of the Calculation Agent or the relevant Paying Agent, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Calculation Agent or the relevant Paying Agent (as applicable) in the Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 5(b)(C)(aa), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(bb) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(b)(C) will be notified at least 10 business days prior to the relevant Interest Determination Date by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 16. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Trustee, the Calculation Agent and the Paying Agents a certificate signed by an Authorised Signatories of the Issuer:

- (1) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(b)(C); and
- (2) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Trustee, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

Notwithstanding any other provision of this Condition 5(b)(C), if following the determination of any Successor Rate, Alternative Rate, Adjustment Spread or Benchmark Amendments (if any), in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5(b)(C), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to

adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable (other than due to its own gross negligence, willful default or fraud) to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, willful default or fraud) shall not incur any liability for not doing so.

(cc) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(b)(C)(x), Condition 5(b)(C)(y), Condition 5(b)(C)(z) and Condition 5(b)(C)(aa), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(B) will continue to apply unless and until a Benchmark Event has occurred.

(D) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (iv) **Rate of Interest for Index Linked Interest Notes:** The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

- (g) **Margin, Maximum Rate of Interest/Minimum Rate of Interest, Maximum Instalment Amount/Minimum Instalment Amount and Maximum Redemption Amount/Minimum Redemption Amount and Rounding:**
- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
 - (ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Maximum Instalment Amount or Minimum Instalment Amount or Maximum Redemption Amount or Minimum Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the jurisdiction(s) of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, each of the Transfer Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of

adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (j) **Determination or Calculation by an agent of the Issuer:** Without prejudice to the provisions of Condition 5(l) below, if the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Issuer shall appoint an agent on its behalf to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.
- (k) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Adjustment Spread**” means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (ii) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or
- (iii) (if the Independent Adviser determines that no such spread is customarily applied), the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

“**Alternative Rate**” means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(b)(C)(y) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

“**Benchmark Amendments**” has the meaning given to it in Condition 5(b)(C)(aa).

“**Benchmark Event**” means:

- (i) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or
- (v) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or
- (vi) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (ii) and (iii) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (b) in the case of sub-paragraph (iv) above, on the date of the prohibition of use of the Original Reference Rate and (c) in the case of sub-paragraph (v) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Trustee, the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Trustee, the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination.

“**Business Day**” means:

- (i) in the case of a currency other than euro or Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and in each (if any) Additional Business Centre; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”) and in each (if any) Additional Business Centre; and/or
- (iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30.

- (vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

- (viii) if “**Actual/Actual-ICMA**” is specified hereon,
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Independent Adviser**” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 5(b)(C)(x).

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR.

“Interest Period” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified thereon.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Original Reference Rate” means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Relevant Nominating Body” means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Chinese Yuan in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“Successor Rate” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (l) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note or Coupon is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior written notice to the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (m) **Certificates to be final:** All certificates, communications, opinions, determinations, calculations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Calculation Agent or the Trustee, shall (in the absence of wilful default, gross negligence, fraud or manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Calculation Agent, the other Agents and all Noteholders and/or Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders or the Couponholders or any other person shall attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6 Redemption, Purchase and Options

- (a) **Redemption by Instalments and Final Redemption:**
 - (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
 - (ii) Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within Condition 6(a)(i) above, its final Instalment Amount.
- (b) **Early Redemption:**
 - (i) *Zero Coupon Notes:*
 - (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

- (B) Subject to the provisions of sub-paragraph (C) below of this Condition 6(b)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above of this Condition 6(b)(i), except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.
- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (in accordance with Condition 16) and to the Trustee and the Issuing and Paying Agent in writing (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to (but excluding) the date fixed for redemption), if the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that (i) it (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the giving of any notice of redemption pursuant to this Condition 6(c), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate in English signed by an Authorised Signatory of the Issuer (or of the Guarantor, as the case may be) stating that the obligation referred to in (i) above of this Condition 6(c) cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and (B) an opinion, addressed to and in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change in or amendment to laws or regulations or change in the application or official

interpretation thereof, and the Trustee shall be entitled (but shall not be obliged) to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (i) and (ii) above of this Condition 6(c) without further enquiry and without liability to any Noteholder, Receiptholder or Couponholder, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and Couponholders. The Trustee shall be protected and shall have no liability to any Noteholder or any other person for so accepting and relying on any such certificate and opinion. All Notes in respect of which any notice of redemption is given under this Condition 6(c) shall be redeemed on the date specified in such notice in accordance with this Condition 6(c).

- (d) **Redemption for Relevant Events:** At any time following the occurrence of a Relevant Event, the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes on the Put Settlement Date at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a Non-Registration Event) of their nominal amount, together in each case with accrued interest to (but excluding), such Put Settlement Date. To exercise such right, the holder of the relevant Note must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and (in the case of Fixed Rate Notes other than Due Currency Notes of Index-Linked Notes) Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificates representing such Note(s) with the Registrar or any Transfer Agent at its specified office together with a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent, Transfer Agent or the Registrar (as applicable) (a "**Put Exercise Notice**"), by not later than 30 days following the occurrence of a Relevant Event or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 16. The "**Put Settlement Date**" shall be the 14th day (in the case of a redemption for a Change of Control) or the fifth day (in the case of a redemption for a Non-Registration Event) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes which are the subject of the Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

The Issuer shall give notice to Noteholders in accordance with Condition 16 and the Trustee by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 6(d).

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Relevant Event has occurred and shall not be responsible for or liable to the Noteholders, the Receiptholders, the Couponholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

In this Condition 6(d):

"**Beijing SASAC**" means the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing of the PRC or its successor;

a "**Change of Control**" occurs when:

- (i) any person or persons, acting as a group, other than a Permitted Holder, acquiring ownership or control directly or indirectly or in combination (through controlled Subsidiaries) of more than 50 per cent. of the Voting Rights of the issued share capital of the Guarantor; or
- (ii) the Guarantor cease to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer;

“**Control**” means (i) the ownership, acquisition or control of more than 50 per cent. of the Voting Rights of the issued share capital of a person or (ii) the right to appoint and/or remove all or the majority of the members of a person’s board of directors or other governing body, in each case whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such person; the term “**Controlled**” has a meaning correlative to the foregoing;

a “**Non-Registration Event**” occurs when any of the SAFE Registration Documents have not been received by the Trustee on or prior to the Registration Deadline;

“**Permitted Holder**” means any of Beijing SASAC, SASAC, the central government of the PRC, or any person directly or indirectly Controlled by the Beijing SASAC, SASAC or the central government of the PRC;

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case, whether or not being a separate legal entity);

a “**Relevant Event**” will be deemed to occur if:

- (i) there is a Non-Registration Event; or
- (ii) there is a Change of Control;

“**Voting Rights**” means the right generally to vote at a general meeting of shareholders of a person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency, and any such voting power shall therefore be excluded for the purpose of this definition); and

“**SASAC**” means the State-owned Assets Supervision and Administration Commission of the PRC or its successor.

- (e) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days’ irrevocable notice to the Noteholders (in accordance with Condition 16) and to the Trustee and the Issuing and Paying Agent in writing (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date specified hereon. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to (but excluding) the date fixed for redemption, if applicable. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(e).

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as determined by the Issuer and notified in writing to the Trustee and the Issuing and Paying Agent, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (f) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days’ notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) specified hereon at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to (but excluding) the date fixed for redemption, if applicable.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (an “**Exercise Notice**”) in the form for the time being current, obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.
- (h) **Purchases:** The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for certain purposes, including for the purpose of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 10, 11(a) and 12.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries may be held, reissued, resold or surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, shall be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.
- (j) **Trustee Reliance:** The Trustee shall be entitled to conclusively rely on or act in reliance on any certificate, notice or document received by it as contemplated in this Condition 6 as sufficient evidence of the facts and/or matters stated therein and shall not be liable to any Noteholder and/or Couponholder or any other person for so doing.

Neither the Trustee nor any of the Agents shall be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and none of them will be responsible or liable to the Noteholders, the Receiptholders or the Couponholders for any loss arising from any failure by it to do so. Unless and until the Trustee has notice in writing of the occurrence of any event or circumstance within this Condition 6, it shall be entitled to assume that no such event or circumstance has occurred or exists.

Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption under this Condition 6, whether from the Note Issuer or any Noteholder and none of them shall be liable to the Noteholders, the Note Issuer or any other person for not doing so.

7 **Payments and Talons**

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii) and Condition 7(f)(vi)), as the case may be:
 - (i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by transfer to an account denominated in such currency with, a Bank;

- (ii) in the case of Renminbi, by transfer from the relevant Paying Agent's office outside the United States to a Renminbi account maintained by or on behalf of the Noteholder with a Bank in Hong Kong.

In this Condition 7(a), Condition 7(b) and Condition 7(c), "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

- (b) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (c) **Registered Notes:**
 - (i) Payments of principal (which for the purposes of this Condition 7(c) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(c)(ii).
 - (ii) Interest (which for the purpose of this Condition 7(c) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Renminbi or otherwise specified, on the fifth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:
 - (A) in the case of a currency other than Renminbi, in the relevant currency by transfer to an account in the relevant currency maintained by the payee with a Bank; and
 - (B) in the case of Renminbi, by transfer to Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives applicable thereto in the place of payment without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law, regulation or official guidance implementing an intergovernmental approach thereto but no commission or expenses shall be charged to the Noteholders, Receiptholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent(s) initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder, Receiptholders or Couponholder. The Issuer and the Guarantor(s) reserve the right at any time with the prior written approval of the Trustee (where required in

accordance with the Agency Agreement) to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where these Conditions so require, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(b) above.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Noteholders in accordance with Condition 16.

(f) Unmatured Coupons and Receipts and unexchanged Talons:

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), such Notes should be surrendered for payment together with all unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relevant unmaturing Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent on any business day in the location of the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, “**business day**” means a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “Additional Financial Centres” hereon and:
 - (i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day; or
 - (iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts, the Coupons or under the Guarantee, shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the PRC or, in each case, any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC at the rate of up to and including the applicable tax rate as at the date on which agreement is reached to issue the first Tranche of Notes (the “**Applicable Rate**”), the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Noteholders, Receiptholders or Couponholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or, as the case may be, the Guarantor is required to make a deduction or withholding in respect of PRC tax in excess of the Applicable Rate, or British Virgin Islands deduction or withholding is required, in such event the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (“**Additional Tax Amounts**”), so that the net amount received by Noteholders, Receiptholders or Couponholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required, except that no such Additional Tax Amounts shall be payable in respect of any Note, Receipt or Coupon:

- (a) to, or to a third party on behalf of, a Noteholder, Receiptholder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the British Virgin Islands or the PRC other than the mere holding of the Note, Receipt or Coupon; or
- (b) presented (or in respect of which the Certificate representing it is presented) for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that the Noteholder, Receiptholder or Couponholder would have been entitled to such Additional Tax Amounts on presenting it for payment on the thirtieth day; or
- (c) with respect to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon that would not have been imposed but for the failure of the Noteholder, Receiptholder or Couponholder to comply with a timely request of the Issuer or the Guarantor,

addressed to the holder of such Note, Receipt or Coupon to provide certification or information concerning the nationality, residence or identity of the holder or beneficial owner of such Note, Receipt or Coupon, if compliance is required as a precondition to relief or exemption from such taxes, duties, assessments or governmental charges; or

- (d) with respect to any taxes, withholding or deduction imposed pursuant to the provisions of Sections 1471 through 1474 of the Code (including any successor provisions or amendments thereof), any current or future regulations or agreements thereunder, any official interpretations thereof or any law, regulation or official guidance implementing an intergovernmental approach thereto.

As used in these Conditions, “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date falling seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relevant Certificate), Receipt or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

For the avoidance of doubt, neither the Trustee nor any Agent shall be responsible or liable for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of the Trustee or any of the Agents shall be responsible or liable for (A) determining whether the Issuer, the Guarantor or any Noteholder, Receiptholder or Couponholder is liable to pay any taxes, duty, charges, withholding or other payment referred to in this Condition 8; or (B) determining the sufficiency or insufficiency of any amounts so paid. None of the Trustee or the Agents shall be responsible or liable for any failure of the Issuer, the Guarantor, any Noteholder, Receiptholder or Couponholder, or any other third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall (subject as provided in Condition 7(f)(i)) be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events (each an “**Event of Default**”) occurs, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (provided in any case that the Trustee shall first have been indemnified and/or secured and/or pre-funded to its satisfaction in its sole discretion), give written notice to the Issuer and the Guarantor declaring that the Notes are, and they shall immediately become, due and payable at (in the case of Zero Coupon Notes) their Early Redemption Amount or (in the case of Notes other than Zero Coupon Notes) their nominal amount together (if applicable) with accrued interest:

- (a) **Non-Payment:** there is a failure to pay (i) the principal of any of the Notes when due; or (ii) any interest on any of the Notes within fourteen days after any Interest Payment Date; or

- (b) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Notes, the relevant Deed of Guarantee or the Trust Deed (other than where it gives rise to a right of redemption pursuant to Condition 6(d)) which default is, in the opinion of the Trustee, incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer and the Guarantor by the Trustee; or
- (c) **Cross-Acceleration:** (i) any other present or future indebtedness of the Issuer, the Guarantor or any of their respective Principal Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds U.S.\$20 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 10(c) operates); or
- (d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Principal Subsidiaries and is not discharged or stayed within 45 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries over all or a material part of the assets of the Issuer, the Guarantor or the Principal Subsidiaries, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person) and such action is not discharged within 45 days after the date thereof; or
- (f) **Insolvency:** the Issuer, the Guarantor or any of the Principal Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of (or of a particular type of) the debts of the Issuer, the Guarantor, or any of the Principal Subsidiaries, as the case may be; or
- (g) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer, the Guarantor or any of the Principal Subsidiaries, or the Issuer, the Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for (A) the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a solvent winding-up of any Principal Subsidiary other than the Issuer, whereby the undertaking and assets of a Principal Subsidiary are transferred to or otherwise vested in the Guarantor or any of its Subsidiaries; or (iii) a disposal of a Principal Subsidiary on an arm's length basis; or
- (h) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of the Principal Subsidiaries; or
- (i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes, the relevant Deed of

Guarantee and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the relevant Deed of Guarantee, the Coupons, the Register, the Receipts and the Trust Deed admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

- (j) **Illegality:** it is or will become unlawful for any of the Issuer and the Guarantor to perform or comply with any one or more of their respective obligations under any of the Notes, the relevant Deed of Guarantee, the Coupons, the Receipts or the Trust Deed; or
- (k) **Unenforceability of Guarantee:** except as permitted under the Trust Deed, any part of the relevant Guarantee is unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Issuer or the Guarantor; or
- (l) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in this Condition 10.

In this Condition 10, “**Principal Subsidiary**” means Subsidiaries of the Guarantor:

- (a) whose total operating income or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total operating income, as shown by its latest audited income statement are at least five per cent. of the consolidated total operating income as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries’ share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (b) whose net profits or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit, as shown by its latest audited income statement are at least five per cent. of the consolidated net profit as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries’ share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (c) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total assets, as shown by its latest audited balance sheet are at least five per cent. of the consolidated total assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries including the investment of the Guarantor in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Guarantor and after adjustments for minority interests; or
- (d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that (xx) the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall forthwith become a Principal Subsidiary and (yy) on or after the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

- (ii) if at any relevant time in relation to the Guarantor or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, total operating income, net profit or total assets of the Guarantor and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Guarantor;
- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its total operating income, net profit or total assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor; and
- (iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Guarantor, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor.

In addition, any Subsidiary which is not itself a Principal Subsidiary shall nevertheless be treated as a Principal Subsidiary if the total revenue and other income, net profit (or consolidated net profit if the Subsidiary itself has Subsidiaries) or total assets (or consolidated total assets if the Subsidiary itself has Subsidiaries) attributable to such Subsidiary when aggregated with the total revenue and other income, net profit (or consolidated net profit if appropriate) or total assets (or consolidated total assets if appropriate) attributable to any other Subsidiary which is not itself a Principal Subsidiary and with respect to which any of the events referred to in this Condition 10 has occurred since the relevant Issue Date, exceeds five per cent. of the consolidated total revenue and other income, consolidated net profit or consolidated total assets of the Guarantor and its Subsidiaries.

11 Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed, the relevant Deed of Guarantee and the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested to do so by Noteholders holding not less than 10 per cent. in aggregate nominal amount of the Notes for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any Redemption Amount in respect of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (viii) to modify or cancel the relevant Guarantee otherwise than in accordance with Condition 11(b), in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds or at any adjourned meeting not less than one-quarter in aggregate nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution (x) in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate nominal amount of the Notes for the time being outstanding, or (y) passed by Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

- (b) **Modification of Agreements and Deeds:** The Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, Receiptholders or Couponholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, the relevant Deed of Guarantee or the Agency Agreement that is of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the relevant Deed of Guarantee or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders, Receiptholders and the Couponholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Noteholders as soon as practicable thereafter. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances set out in Condition 5(b)(iii)(C) without the consent of the Noteholders, Receiptholders or Couponholders.
- (c) **Substitution:** The Trust Deed contains provisions permitting (but not obliging) the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, Receiptholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary (as defined in the Trust Deed) of the Issuer or its successor in business or of the Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer or the Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed, the Notes and the relevant Deed of Guarantee (as the case may be). In the case of such a substitution the Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, Receiptholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons, the relevant Deed of Guarantee and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders, and the Trustee shall not be entitled to require on behalf of any Noteholder, Receiptholder or Couponholder, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

At any time after the Notes become due and payable, the Trustee may (but shall not be obliged to), at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the relevant Deed of Guarantee, the Notes, the Receipts and the Coupons, but it need not take any such steps and/or actions and/or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in aggregate nominal amount of the Notes then outstanding, and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder, Receiptholder and/or Couponholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including, without limitation, provisions relieving it from taking such steps and/or actions and/or instituting such proceedings to enforce payment unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and/or any entity related (directly or indirectly) to the Issuer or the Guarantor without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Noteholder, Receiptholder or Couponholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Noteholders. The Trustee shall be entitled to rely on any direction, request or resolution of Noteholders given by holders of the requisite nominal amount of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement, the relevant Deed of Guarantee or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Noteholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or in the event that no such directions are received. The Trustee and the Agents shall not be under any obligation to ascertain whether any Event of Default, Default or Potential Event of Default (as defined in the Trust Deed), as the case may be, has occurred or may occur or to monitor compliance with the provisions of the Trust Deed, the relevant Deed of Guarantee, the Agency Agreement or these Conditions.

The Trustee and the Agents may rely without liability to Noteholders, Receiptholders or Couponholders on any report, confirmation, opinion or certificate or any advice of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to them and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee or any Agent may accept and shall be entitled to rely on any such report, confirmation, opinion or certificate or advice and, in such event, such report, confirmation, opinion or certificate or advice shall be binding on the Issuer, the Guarantor, the Noteholders, Receiptholders and the Couponholders.

Each Noteholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and its Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Noteholder shall not rely on the Trustee in respect thereof.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is mutilated or defaced or is alleged to have been lost, stolen or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer, the Issuing and Paying Agent

and/or the Registrar in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer or the relevant Agent may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders, Receiptholders or Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the Issue Date, the issue price, the first payment of interest on them, the timing for submission of the NDRC Post-Issue Filing (if applicable) and the timing for completion of the Cross-border Security Registration) and so that such further issue shall be consolidated and form a single series with an outstanding Series. References in these Conditions to the Notes include (unless the context requires otherwise) any such other securities issued pursuant to this Condition 15.

16 Notices

Notices required to be given to the holders of Registered Notes pursuant to these Conditions shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and, so long as the Notes are listed on a stock exchange and the rules of that exchange so require, published at the Issuer's expense in a leading newspaper having general circulation in Asia (which is expected to be the Wall Street Journal Asia) and/or in such manner which complies with the rules and regulations of that stock exchange or such relevant authority. Notices required to be given to the holders of Bearer Notes pursuant to these Conditions shall be valid if published in a daily newspaper of general circulation in Asia (which is expected to be the Wall Street Journal Asia). If any such publication is not practicable, notices required to be given pursuant to these Conditions shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Receiptholders and Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

17 Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Receipt or Coupon is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder, Receiptholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Receipt or Coupon that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Receipt or Coupon, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 17, it shall be sufficient for the Noteholder, Receiptholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder, Receiptholder or Couponholder and shall continue to be in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Receipt or Coupon or any other judgment or order.

18 Contracts (Rights of Third Parties) Act 1999

Without prejudice to the rights of the Noteholders as set out in these Conditions, no person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except to the extent expressly provided for in these Conditions and in the Trust Deed.

19 Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons, the Agency Agreement, the relevant Deed of Guarantee and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, the laws of England.
- (b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes, Receipts, Coupons or Talons, the Agency Agreement, the relevant Deed of Guarantee and the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons, the Agency Agreement, the relevant Deed of Guarantee or the Trust Deed (“**Proceedings**”) may be brought in the courts of Hong Kong. Pursuant to the Trust Deed, each of the Issuer, the Guarantor and the Trustee has irrevocably submitted to the exclusive jurisdiction of the courts of Hong Kong and waived any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- (c) **Agent for Service of Process:** Each of the Issuer and the Guarantor has irrevocably agreed to receive service of process at the Guarantor’s place of business in Hong Kong from time to time, currently at 18/F, Two Exchange Square, Central, Hong Kong in any Proceedings in Hong Kong.
- (d) **Independence and Waiver of Immunity:**
 - (i) The Guarantor is a separate legal and independent entity organised under the Company Law of the PRC and is an enterprise undertaking commercial activities independent from the PRC government with ownership of its assets and the capacity independently to assume civil liabilities.
 - (ii) Each of the Issuer and the Guarantor has under the Trust Deed waived any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Terms used in this section that are not otherwise defined shall have the meanings given to them in “Terms of Conditions of the Notes”.

INITIAL ISSUE OF NOTES

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depository for Euroclear and Clearstream (the “**Common Depository**”) or a sub-custodian for the CMU.

Upon the initial deposit of a Global Note or a Global Certificate with the Common Depository or with a sub-custodian for the CMU or registration of Registered Notes in the name of (i) any nominee of the Common Depository for Euroclear and Clearstream or (ii) the Hong Kong Monetary Authority as operator of the CMU and delivery of the relevant Global Note or Global Certificate to the Common Depository or the sub-custodian for the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

EXCHANGE

Temporary Global Notes

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see “*Summary of the Programme – Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a Permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Issue Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

The holder of a Temporary Global Note issued pursuant to TEFRA D will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. The payments in respect of a Note issued under TEFRA D pursuant to Conditions 6(d) and 6(f) may not be collected without certificate as to non-U.S. beneficial ownership.

In respect of a Note issued under TEFRA D, for the purpose of dealing in Euroclear or Clearstream or the CMU, any further issue of Notes by the Issuer pursuant to Condition 15 may not be consolidated and form a single series with the outstanding securities of any series (including the Notes) until the exchange of interests in a Temporary Global Note for interests in a Permanent Global Note upon the relevant Certification.

Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided in the paragraph titled “*Partial Exchange of Permanent Global Notes*” below, in part for Definitive Notes if the Permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an aggregate nominal amount equal to one or more Specified Denominations.

Global Certificates

The following will apply in respect of transfers of Notes held in Euroclear, Clearstream, the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfer of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In the event that a Global Certificate is exchanged for a definitive Certificate, such definitive Certificate shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a definitive Certificate in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an aggregated nominal amount equal to one or more Specified Denominations.

Partial Exchange of Permanent Global Notes

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal, interests and Instalment Amounts in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Terms and Conditions of the Notes (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent).

In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon).

Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

“**Exchange Date**” means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to the Terms and Conditions of the Notes

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused.

Payments on any Temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to a Global Note held through the CMU) will be made against presentation for endorsement and,

if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be enfaced on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(f)(vi) of the Terms and Conditions of the Notes will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation (if applicable) shall be disregarded in the definition of “**business day**” set out in Condition 7(h) of the Terms and Conditions of the Notes.

All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate representing Notes held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in the records of the CMU) at the close of business on the Clearing System Business Day immediately prior to the date for payment and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose. For the purposes of this paragraph, “Clearing System Business Day” means a day on which the CMU is operating and open for business.

Prescription

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 of the Terms and Conditions of the Notes).

Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholders holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a Permanent Global Note that is required by the Terms and Conditions of the Notes to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note or its presentation to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) for endorsement in the relevant schedule of such Permanent Global Note or, in the case of a Global Certificate, by reduction in the aggregate nominal amount of the Certificates in the Register, whereupon the nominal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a Permanent Global Note or by a Global Certificate may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of early redemption of the Issuer provided for in the Terms and Conditions of the Notes of any Notes while such Notes are represented by a Permanent Global Note or by a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing

the information required by the Terms and Conditions of the Notes, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or Alternative Clearing System (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Terms and Conditions of the Notes of any Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the Permanent Global Note giving notice to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits relating to the deposit of Notes with a Paying Agent, a Transfer Agent or the Registrar (as applicable) set out in the Terms and Conditions of the Notes substantially in the form of the notice available from any Paying Agent, any Transfer Agent or the Registrar (as applicable), except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent), for notation accordingly in relevant schedule of such Permanent Global Note.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of, or in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interest if such accountholders were the holders of the Notes represented by such Global Note or the relevant Global Certificate, as the case may be.

Notices

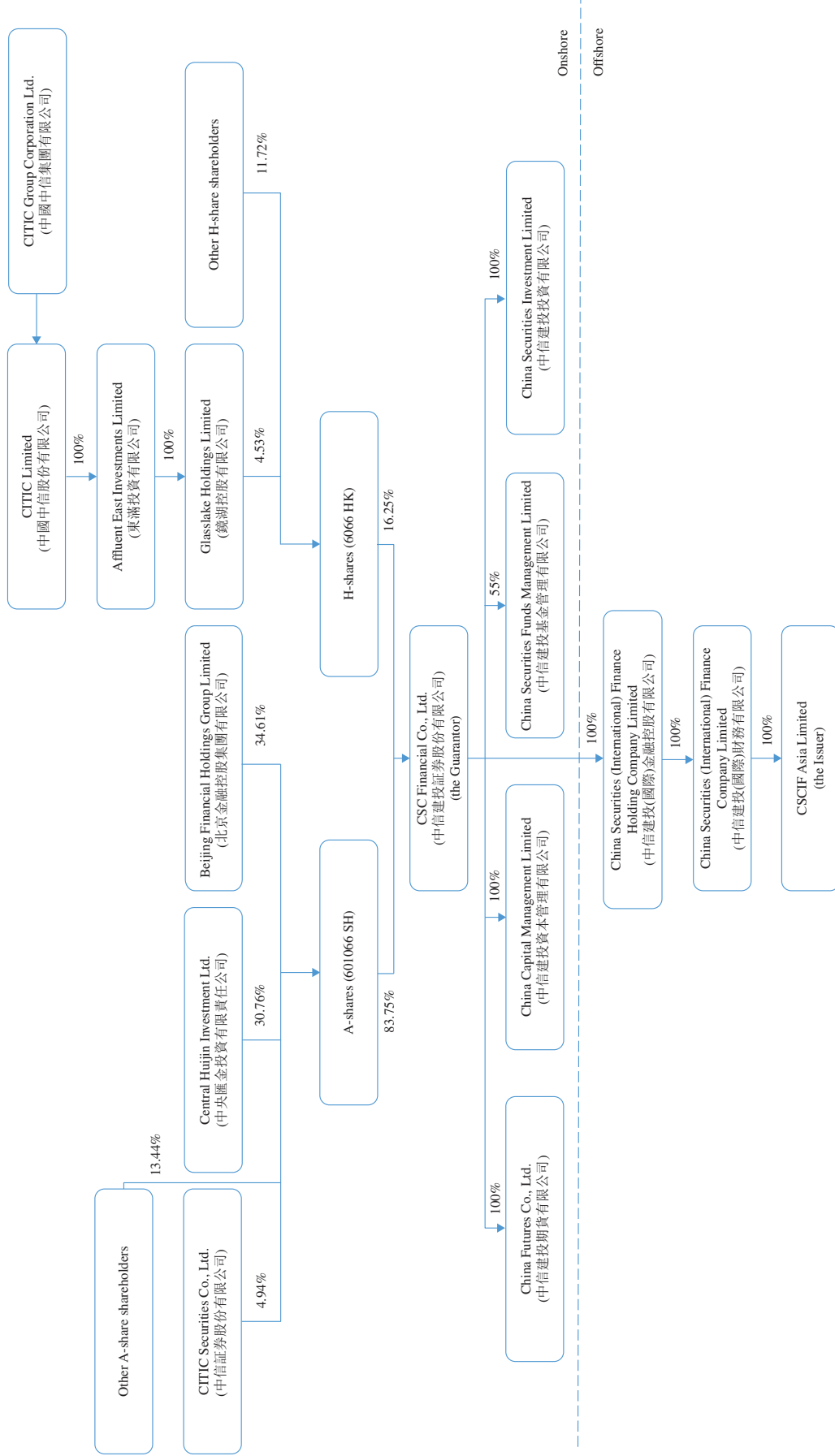
So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or Alternative Clearing System (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Terms and Conditions of the Notes or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the CMU in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate, and any such notice shall be deemed to have been given to the Noteholders on the day on which such notice is delivered to the CMU.

PARTLY PAID NOTES

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holders in respect of them.

CORPORATE STRUCTURE

The following chart sets forth the corporation structure of our corporate structure as at 31 March 2021.



DESCRIPTION OF THE ISSUER

OVERVIEW

The Issuer was incorporated as a BVI business company with limited liability on 7 July 2015 in the British Virgin Islands under the BVI Business Companies Act, 2004 (as amended). Its registered office is located at Ritter House, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands, and its registration number is 1881690. The Issuer is wholly owned by the Guarantor.

BUSINESS ACTIVITY

Under the Issuer's memorandum and articles of association, the Issuer has full capacity to carry on or undertake any business or activity, do any act or enter into any transaction that is not prohibited under any law for the time being in force in the British Virgin Islands. However, so long as the Notes are outstanding, the Issuer will limit its permitted activities as described under "Terms and Conditions of the Notes." The Issuer's primary purpose is to act as one of the Group's financing subsidiaries to issue and hold the Notes. The Issuer has no material business nor assets and does not have any employees. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue further bonds and engage in other business activities related to us and may incur substantial liabilities and indebtedness.

DIRECTORS

The sole director of the Issuer is Ms. Xue Lan. The sole director of the Issuer does not hold any shares or options to acquire shares of the Issuer.

SHARE CAPITAL

The Issuer is authorised to issue 50,000 shares of US\$1.00 par value each of a single class and series, 100 of which have been issued and is fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

FINANCIAL INFORMATION

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorisation, execution and issue of the Notes, and the documents and matters referred to or contemplated in this Offering Circular to which the Issuer is or will be a party and matters which are incidental or ancillary to the foregoing.

On 4 August 2020, the Issuer issued 1.75% senior notes due 2025 in the aggregate principal amount of US\$500,000,000 under this Programme. Except as otherwise disclosed in this Offering Circular, the Issuer has no other borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Issuer.

The financial year of the Issuer runs from 1 January to 31 December. There has been no material change in the activities of the Issuer since its incorporation. The Issuer has not prepared any financial statements since its incorporation.

DESCRIPTION OF THE GROUP

OVERVIEW

We are a leading large full-service investment bank in the PRC with superior value creation capabilities. We have a strong client base, a premier investment banking brand, a balanced business structure, and a robust and prudent risk management system. We adhere to the core value of “achievements leading to status”, as well as the concepts of “risk management as priority” and “healthy development” to strive for better service for existing customers and realise mutual growth with the enterprise. In the meantime, we penetrated the local market and moved towards the international market to explore potential quality customers. We aim at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging the development trends in the PRC and global capital market.

As at 31 December 2020, we had a total of 21 branch companies, 292 securities branches and 25 future branches in China, and owned a subsidiary in Hong Kong, China Securities International. The four business segments of us are investment banking segment, wealth management segment, trading and institutional client services segment and asset management segment. Our diversified service and product offerings enable us to achieve synergies across different business lines. With the strong support of our shareholders and our professional management team, we engage in proprietary trading to enhance our financial performance. Through the efforts of our visionary leadership team and our high calibre employees, we have experienced substantial growth over the years and achieved industry-leading positions in many of our business segments. The table below sets out the detailed components of each business segment.

<u>Investment banking</u>	<u>Wealth management business</u>	<u>Trading and institutional client services business</u>	<u>Asset management business</u>
Equity financing business	Brokerage and wealth management business	Equity sales and trading business	Asset management business
Debt financing business	Margin financing and securities lending business	Fixed income products sales and trading business	Fund management business
Financial advisor business	Repurchase business	Investment and research business	Private equity investment business
		Prime brokerage business	
		QFII business and RQFII business	
		Other investment businesses	

Our total assets increased by 46.4% from RMB195,082.3 million as at 31 December 2018 to RMB285,669.6 million as at 31 December 2019, and further increased by 30.0% to RMB371,228.1 million (US\$56,893.2 million) as at 31 December 2020. Our total revenue and other income increased by 17.7% from RMB16,491.8 million as at 31 December 2018 to RMB19,407.4 million as at 31 December 2019, and further increased by 58.3% to RMB30,720.1 million (US\$4,708.1 million) as at 31 December 2020.

RECENT DEVELOPMENT

March 2021 Financial Information

We have published the first quarterly report for the first quarter ended 31 March 2021 (the “March 2021 Financial Information”), financial information in which was prepared according to PRC GAAP. The report is available on the website of the Hong Kong Stock Exchange at www.hkexnews.com.hk and the website of Shanghai Stock Exchange at www.sse.com.cn. The March 2021 Financial Information is not included in and does not form a part of this Offering Circular.

The March 2021 Financial Information has not been audited or reviewed by the Group’s independent accountants, or any other independent accountants and may be subject to adjustments if audited and reviewed. Consequently, none of the Arrangers, Dealers, the Trustee or Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) makes any representation, warranty or undertaking, express or implied, regarding the accuracy or completeness of such financial information, and potential investors should not place undue reliance on such information. The Group’s March 2021 Financial Information should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the six months ending 30 June 2021 or the full year of 2021.

We summarise below some of the changes to our income statement and statement of cash flows for the three months ended 31 March 2021 compared to the three months ended 31 March 2020.

- Net fee and commission income increased mainly due to the increase in net income from brokerage fees.
- Investment income increased mainly due to the increase in investment income of financial assets held for trading.
- We recorded a loss arising from changes in fair value as compared to a gain arising from changes in fair value in the same period of 2020, mainly due to the decrease of floating profit of financial assets held for trading for the period.
- Other operating income increased mainly due to the increase in revenue from bulk commodity trading income of the futures subsidiary.
- We recorded a net cash in-flow from operating activities as compared to a net cash out-flow from operating activities in the same period of 2020 mainly due to the increase in net cash inflows from operating activities resulting from the increase in accounts payable to underwriting clients and decrease in financial assets held for trading.
- We recorded a net cash out-flow from financial activities as compared to a net cash in-flow from financing activities in the same period of 2020 mainly due to an increase in net cash outflows from financing activities resulting from the repayment of short-term financing instruments payable for the period in 2021.

Changes in Independent Non-Executive Directors

On 14 May 2021, our shareholders meeting approved the election of Mr. Po Wai Kwong and Mr. Lai Guanrong as the independent non-executive directors of the Company. Meanwhile Mr. Feng Genfu and Ms. Zhu Shengqin resigned as the independent non-executive directors of the Company and their relevant duties as committee members of the special committees of the Board. See “*Directors, Supervisors and Senior Management*”.

Proposed Election of Non-Executive Directors

On 26 May 2021, our Board approved each of Ms. Zhang Wei and Ms. Wang Hua to be nominated as a candidate for non-executive director of the Company. Such appointment will be submitted to the general meeting of the Company for approval to be held at a later time to be announced.

Impact of COVID-19 pandemic

Since the outbreak of the COVID-19 pandemic in January 2020, the Company has focused on ensuring the safety and welfare of its employees and on implementing the requirements of the “Notice on Further Strengthening Financial Support for Prevention and Control of New Coronavirus Infectious Pneumonia” (the “**Notice**”), that was jointly issued by the PBOC, MOF, the China Banking and Insurance Regulatory Commission, CSRC and SAFE on 31 January 2020. The Notice directs financial institutions such as ourselves to prioritise the extension of credit to customers who are involved in responding to the COVID-19 pandemic and to customers located in areas severely impacted by the pandemic. To the extent that our business involves such customers and such areas, we have exercised reasonable and prudent flexibility in the provision of new credit and the rollover for our existing customers. As a provider of a broad range of financial services, our business is inherently more able to withstand the economic impact of a public health emergency than companies in many other industries. As at the date of this Offering Circular, the COVID-19 pandemic has not had, and is not expected to have, any material impact on the Company’s overall business, financial condition, or results of operations.

HISTORY AND DEVELOPMENT

The following table sets forth the key development milestones in our history:

2005	In November, our predecessor, China Securities Finance Limited (中信建投証券有限責任公司) was established. China Securities Finance Limited acquired all securities business and related assets originally owned by Huaxia Securities and then operated as a comprehensive securities firm.
2007	In July, China Securities Futures became our wholly-owned subsidiary and commenced its futures and related business.
2008	In September, we were qualified as an inquirer for IPO. In September, we were qualified for the national interbank funding.
2009	In April, we were qualified for the provision of intermediary introduction business to futures companies. In June, we were qualified to carry out asset management business. In July, China Securities Capital was established and commenced direct equity investment and related business.
2010	In July, we were rated “Class A Grade AA” for the first time under the classification base on securities firms of the CSRC, and maintained the same rating for every subsequent year. We are one of the only three PRC securities firms which received such rating for ten consecutive years since 2010. In November, we were qualified for and commenced the margin financing and securities lending businesses upon the approval of the CSRC.
2011	In September, China Securities Finance Limited was converted into a joint stock company and renamed China Securities Finance Co., Ltd.
2012	In July, China Securities International was established to tap into overseas business.

In August, we became one of the first 11 pilot securities firms to provide refinancing business.

In September, we were qualified to carry out the contractual repurchase transaction business.

In June and November, we were qualified for the piloting of the provision of agency service for registration of pledge of securities by CSDC Shanghai branch and CSDC Shenzhen Branch, respectively.

In November, we were qualified to act as lead underwriter for debt financing instruments of non-financial institutions.

In December, we were qualified to carry out OTC trading business.

In December, we were qualified to carry out agency sales of financial products.

2013 In September, China Securities Funds was established and commenced fund management and related business.

In September, we became one of the first ten securities firms which were rated Grade A (highest rating in the PRC securities industry) after the implementation of the Implementation Plan for Bifurcated Review of M&A and Restructuring (《併購重組審核分道制實施方案》) by the CSRC.

In October, we were qualified to carry out agency services business for precious metal spot contracts and proprietary business for spot gold contracts. Together with all listed PRC securities firms, we were the first securities firm qualified to conduct such business.

2014 In September, we were qualified for the piloting of Internet securities business.

In October, China Securities International was approved by the PBOC to enter interbank bond market.

In October, we were approved to carry out sales of CRMW instruments.

2015 In January, we became the first securities firm in the PRC to issue perpetual subordinated bonds.

In January, we were qualified as one of the first batch of participants for stock options trading at the Shanghai Stock Exchange and was conferred with brokerage authority for stock option and proprietary trading.

In January, we were qualified to carry out options settlement business.

In January, we were qualified to carry out stock options market making business.

In February, we were qualified to carry out custody of security investment funds.

In April, we were qualified as a Qualified Domestic Institutional Investor (QDII).

In June, we were qualified as an institution providing private fund business outsourcing.

In June, we obtained the qualification from the PBOC to carry out physical precious metals business.

In September, we were qualified to carry out interbank gold inquiry business.

2016 On 9 December 2016, we were listed and traded on the main board of the Hong Kong Stock Exchange, with an IPO of 1,130,293,500 H Shares (including 1,076,470,000 new shares) (stock code: 6066.HK). On 30 December 2016, we exercised the over-allotment option partially and issued additional H Shares at an issue price of HKD6.81 per share.

2017 We established China Securities Investment and commenced alternative investment business.

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

In December 2018, we became the first company to create the CRMW to support private companies in bond financing.

We established institutional business committee to guide and vigorously develop institutional client business.

2020 We obtained the license to conduct the foreign exchange settlement and purchase business.

We became one of the first seven securities companies with the qualification to carry out pilot fund investment advisory business.

In March 2020, we became one of the first six securities companies to be included in the consolidated supervision pilot program approved by CSRC.

In March 2020, we obtained CSRC approval for private placement A-share offering to raise up to RMB13 billion. In December 2020, we completed the issuance of a total of 110,309,559 new A Shares in a non-public issuance at RMB35.21 per share.

COMPETITIVE STRENGTHS

As a rapidly developing national comprehensive securities company with strong business competitiveness, we believe the following strengths have contributed to our success and differentiated us from our competitors.

Our extraordinary position and prestigious reputation

We have been rated by the CSRC as one of the “Class A Grade AA” among three securities companies for eleven consecutive years since 2010, with such a rating being the highest rank granted by the CSRC to securities companies. We have rapidly developed into a leading large full-service investment banks with four major business segments: (i) investment banking, (ii) wealth management, (iii) trading and institutional client services, and (iv) asset management.

- **Investment banking:** In 2020, we completed 2,446 equity and debt underwriting projects, with a lead underwriting amount of RMB1,373.1 billion, both of which ranked second in the PRC securities industry and remained among top three in the PRC securities industry for eight consecutive years since 2013. The number of equity projects underwritten by us as a lead underwriter and the amount ranked No. 2 in the PRC securities industry, among which the number of IPO projects underwritten by us as a lead underwriter and the amount ranked No. 1. The number of bonds underwritten by us as a lead underwriter ranked No. 2 and the amount ranked No. 2 in the PRC securities industry, among which, both the number of projects underwritten by us as a lead underwriter and the amount of corporate bonds ranked No. 1. The number of projects sponsored and underwritten by us ranked No. 1 among the first batch of enterprises listed on ChiNext registration system.
- **Wealth management:** In 2020, the net income from our securities brokerage business accounted for 3.32% of the market share, ranking No. 10 in the PRC securities industry, and the net income from our distribution of financial products represented a market share of 4.21%, ranking No. 8 in the PRC securities industry. The market value of securities under custody accounted for a market share of 7.22%, and ranked No. 2 in the PRC securities industry in 2020.
- **Trading and institutional client services:** In 2020, the scale of our OTC options business increased RMB246,485 million and the scale of our return swaps increased RMB41,048 million. According to Wind Info, we ranked No. 2 in the PRC securities industry in terms of the underwriting amount of local bonds.
- **Asset management:** Our AUM of entrusted assets as at 31 December 2020 reached RMB490.3 billion, ranking No. 7 in the PRC securities industry, among which, the AUM of actively managed products as at 31 December 2020 ranked No. 7 in the PRC securities industry. As at 31 December 2020, eight out of 17 public fund products of China Securities Funds were ranked among the top half of the market, among which one entered top 5% of the market; the projects invested by China Securities Capital were exited with average investment yield of 108%.

We have attained a privileged position in conducting innovative business pilot programs. In March 2020, we became one of the first six securities companies to be included in the consolidated supervision pilot program approved by CSRC. We are also among one of the first seven securities companies with the qualification to carry out pilot fund investment advisory business. In December 2019, we became one of the first four securities companies to provide the credit protection warrant. In June 2019, we were among the first batch of securities companies to be qualified for inter-bank financial bond issuance. In August 2018, we became one of the first ten securities companies with the OTC options primary dealer qualification. In September 2016, we participated in the creation of credit-linked notes together with the other nine securities companies in China. We are also the first domestic securities company to issue a perpetual subordinated bond.

We have received a number of industry recognitions and awards, including but not limited to the following:

- Outstanding Bond Dealer, Outstanding Underwriter of Local Government Bonds, Outstanding Bond Investment Agency (proprietary trading), Excellent Underwriter of Corporate Bonds, Excellent Underwriter of Corporate Bond Innovative Product, Excellent Trustee, Excellent Manager for Asset Securitization Business (2020) by SSE,

- Outstanding Interest Rate Bond Undertaking Institution, Excellent Underwriter of Corporate Bonds, Excellent Private Enterprise Financing Supporting Institution, Excellent Asset- Backed Special Manager, Excellent Bond Investment Trading Institution (2020) by SZSE,
- Core Dealers, Outstanding Bond Market Dealers (2020) by National Interbank Funding Center,
- Top Ten Golden Bull Securities Companies, 2020 Securities Company Social Responsibility Awards, 2020 Securities Industry Cultural Construction Awards, 2020 Golden Bull Asset Management Team (2020) by China Securities Journal,
- Best Local Investment Bank for three consecutive years (2017 to 2019) and Best Investment Bank in Overseas Business (2019) by New Fortune,
- Junding Prize of All-around Investment Bank in China (2017-2019) by Securities Times,
- Top Ten Golden Bull Securities Companies (2019) by China Securities Journal,
- International Pioneering Investment Bank (2019) by FNEWS.com,
- Core Dealers (2019) by China Foreign Exchange Trading System,
- Outstanding Member for Listing of Companies on SSE STAR Market (2019) by SSE.

Strong support from government and shareholders

We are the only large securities firm under the Beijing Municipal Government. As part of Beijing's development plan of the financial industry for the 13th Five-Year period, we have received firm policy support in various aspects.

The strong support from our shareholders expands our customer base, strengthens our work relationships with the government, provides us with ample business opportunities, and further enhances our clients' confidence in our products and services. In 2020, in order to further strengthen Beijing's financial strategic development and to establish a financial holding platform of the capital city, Beijing SASAC optimized our shareholding structure and changed our shareholder from BSCOMC to Beijing Financial Holdings Group Limited. Beijing Financial Holdings Group Limited is wholly owned by BSCOMC. As our largest shareholder, Beijing Financial Holdings Group Limited owned 34.61% of our equity interest and voting rights as at 31 December 2020. Beijing Financial Holdings Group Limited was established on 19 October 2018. Beijing Financial Holdings Group Limited focuses on financial equity investment and guarantee, capital operation and asset management, entrusted management of specialty funds, credit guarantees and re-guarantees, project investment; investment management, reorganization, merger and acquisition consulting and financial research, business data and credit and other financial information collection and management, industrial investment and other businesses related to our operation.

Backed by Beijing Municipal Government, we have remarkable advantages in business collaboration with SOEs and municipally-owned enterprises in Beijing. As a Beijing-based capital market service provider with the local government as the largest shareholder, we have been exposed to multiple business opportunities fostered by the steady growth of Beijing's economy. For instance, we were the lead underwriter for the equity or debt offering by well-known Beijing municipally-owned enterprises, such as:

- Beijing Automotive Group Co., Ltd.: we acted as lead underwriter for its corporate bond issuance, and sponsor and independent financial advisor on ST Qianfeng's split share reform and major asset restructuring for BAIC BJEU;
- Beijing Cuiwei Tower Co., Ltd.: we acted as sponsor and lead underwriter for its IPO, and independent financial advisor on its major asset restructuring and on raising supporting funds;
- Beijing Jingneng Power Co., Ltd.: we acted as independent financial advisor on its asset acquisition by issuing shares and on raising supporting funds, and lead underwriter for its corporate bonds issuance;

- Wangfujing Group Co., Ltd.: we acted as independent financial advisor on its restructuring, sponsor and lead underwriter for its two non-public offerings, and lead underwriter for its corporate bonds;
- Bank of Beijing: we acted as sponsor for its IPO, lead underwriter for its two non-public offerings, and lead underwriter for its issuance of preferred shares;
- Shougang Group Co., Ltd.: we acted as lead underwriter for its corporate bonds issuance, and lead underwriter for Shougang Fund's enterprise bonds;
- BOE Technology Group Co., Ltd.: we acted as sponsor and lead underwriter for its two non-public offerings, and lead underwriter for its corporate bonds;
- Beijing Urban Construction Group Co., Ltd.: we acted as sponsor and lead underwriter for its non-public offering;
- Chinese Beijing Tong Ren Tang Group Co., Ltd.: we acted as sponsor and lead underwriter for its convertible corporate bonds issuance.

We also acted as lead underwriter for the debt capital market deals of the following clients: BBMG Group Co., Ltd., Beijing Enterprises Group Company Limited, Beijing Tourism Group Co., Ltd., Financial Street Holdings Co., Ltd., Beijing Capital Development Holding (Group) Co., Ltd., and Beijing State-owned Assets Management Co., Ltd.

Central Huijin Investment Ltd., our second largest shareholder, owned 30.76% of our equity interest and voting rights as at 31 December 2020. Established in December 2003, Central Huijin is a state-owned investment company headquartered in Beijing. On behalf of the Chinese government, Central Huijin Investment Ltd. is authorised to exercise its shareholder rights and obligations on key state-owned financial enterprises. The principal shareholder rights of Central Huijin are exercised by the State Council. The members of the board of director and supervisory committee of Central Huijin are appointed by, and are accountable to the State Council. From 2018 to 2020, we were the lead underwriter for the government bond and medium term notes issued by Central Huijin, and the total issuance scale reached RMB57 billion. We also provided asset securitisation and debt underwriting services to certain financial institutions under Central Huijin.

We collaborated with CITIC Group, one of our substantial shareholders, to co-develop our investment banking business, share the pool of strategic clients, and provide the high-quality services to our clients. Founded in 1979 and formerly known as China International Trust and Investment Corporation, CITIC Group is a large multinational conglomerate under the management of the Chinese government. In 2020, CITIC Group has been listed on the Fortune 500 list in the United States for the twelve consecutive year, ranking 126th. The principal business lines of CITIC Group consist of investment holding, financial services, real estate and civil infrastructure, engineering contracting, energy and resources, manufacturing, information technology, and trade services. For example, we acted as a sponsor and lead underwriter of CITIC Press Group's initial public offering and provided bonds underwriting and other services to China CITIC Bank.

The stable and continuing equity ownerships of our two largest shareholders demonstrate their positive attitude and firm support to our operation and business prospect. Some of our senior executives come from our substantial shareholders, who are equipped with extensive industry expertise and strong executive capacities. Their exceptional experience and resource in the PRC securities industry will help deepen our competitive edge and lay the foundation of our business development.

Well-balanced business layout with outstanding advantages

We have developed a wide range of financial products and services offered under the CSC Financial brand, ranging from investment banking business, wealth management business, trading and institutional client services, and asset management business. For the year ended 31 December 2020, our investment banking business, wealth management business, trading and institutional client services and asset management business accounted for 20%, 27%, 41% and 6% of the total revenue and other income, respectively.

Benefiting from the constantly improved revenue structure, our total assets (net of accounts payable to brokerage clients) and total revenue and other income increased steadily with significant growth potential. Our total assets (net of accounts payable to brokerage clients) increased from RMB160.0 billion as at 31 December 2018 to RMB296.5 billion as at 31 December 2020, at a CAGR of 36.1%. Our total revenue and other income grew from RMB16.5 billion in 2018 to RMB30.7 billion in 2020, constituting a CAGR of 36.5%.

By synergizing across different business lines, our well-balanced and fully-integrated service chain drives the steady growth of our business:

- Investment banking business: We are an industry leader in terms of domestic equity and debt underwriting business. As a bellwether of the industry, we completed 2,446 equity and debt underwriting projects, with a lead underwriting amount of RMB1,373.1 billion, both of which ranked second in the PRC securities industry and remained among top three in the PRC securities industry for eight consecutive years. The number of equity projects underwritten by us as a lead underwriter and the amount ranked No. 2 in the PRC securities industry, among which the number of IPO projects underwritten by us as a lead underwriter and the amount ranked No. 1. The number of projects underwritten by us as a lead underwriter and the amount of corporate bonds ranked No. 1 in the PRC securities industry.
- Wealth management business: We provide our retail clients with excellent wealth management services. In 2020, our net income from the securities brokerage business accounted for 3.32% of the market share, representing an increase of 6.68%, ranked No. 10 in the PRC securities industry. In addition to offline services, we further consolidated our leading advantage in online investment advisory service platform. We obtained the qualification to carry out the pilot fund investment advisory business, which will help push forward the transformation and upgrade of our wealth management business.
- Trading and institutional client services: With respect to securities trading business, we accurately seized opportunity in structural market, and obtained better absolute returns. The increase in the scale of OTC option business was RMB246,485 million, representing an increase of 25.01% year-on-year, and the increase in the scale of return swaps was RMB41,048 million, representing an increase of 257.47% year-on-year. In 2020, with respect to fixed income business, we continued to maintain sound proprietary investment, and the return on assets far exceeded the market average. Bond sales remained at the leading position as before, the number of competitive sales of credit bonds rose sharply, and the underwriting amount of local government bonds ranked No. 2 in the PRC securities industry. “Bond Connect” business continued to remain top five among the securities traders according to Wind Info.
- Asset management business: Our AUM of entrusted assets as at 31 December 2020 ranked No. 7 in the PRC securities industry, among which, the AUM of actively managed products as at the end of 2020 ranked No. 7 in the PRC securities industry. The proportion of our actively managed assets as a percentage of our total AUM increased steadily. As at 31 December 2020, the projects invested by China Securities Capital were exited with average investment yield of 108%.

Prudent and comprehensive risk control system and strong risk management capabilities

We have established prudent and comprehensive risk control system and developed strong risk management capabilities. We have a sound four-tier risk management mechanism, and three-line and two-layer risk management policy system to cope with potential risks at different levels, and implemented corresponding risk management policies and monitoring systems covering all business lines. By utilising our independently developed risk control system and abundant risk measurement models developed by our professional quantitative analysis team, we conduct preventive control, concurrent monitor and corrective management on our risk exposures, including but not limited to market risk, credit risk, liquidity risk and operational risk.

Our risk control capabilities are industry-leading and highly recognised by the regulators. Our risk control and regulatory indicators, including risk coverage ratio, net stable funding ratio and net capital over net assets ratio, are ahead of our peer companies. As at 31 December 2020, our risk coverage ratio reached 309%, our net stable funding ratio reached 157%, and our net capital over net assets ratio reached 100%. Our full-coverage and robust risk management system enables us to be selected as one of the first six securities companies to participate in the consolidated supervision pilot program after two rounds of strict and comprehensive evaluation by CSRC. We endeavor to establish a comprehensive and robust risk management system covering all types of risks, business lines, subsidiaries and branches. We carry out various risk management policies with in-detail implementation plans, ranging from early stage risk

identification and routinely projects review, to risk indicator monitoring, risk response and disposal, and risk management evaluation. We have set up a multi-layer and all-dimensional risk control system for all business lines, including a full set of risk limits management mechanism. We implement preventive, concurrent and corrective risk monitoring, which covers the entire process of all business lines with periodic evaluation. For each subsidiary, we establish a risk reporting system and assign risk management specialists to supervise the day-to-day implementation of the specific risk control requirements. For each branch, by way of vertical management, we delegate our risk functional departments to supervise the branch's business compliance and to be responsible for its risk management and control.

Stable and remarkable financial performance

We achieved an industry-leading profitability among large China-based securities companies in terms of return on average assets. From 2018 to 2020, our return on average assets¹ were 1.55%, 2.30% and 2.90%, respectively, and our return on weighted average equity were 6.78%, 11.54% and 18.12%, respectively.

Our total revenue and other income increased from RMB16,492 million in 2018 to RMB30,720 million in 2020, representing a CAGR of 36.48%. Our net profit increased from RMB3,103 million in 2018 to RMB9,537 million in 2020, representing a CAGR of 75.31%. Our cost-to-income ratio² was 75.00%, 62.59% and 60.06% in 2018, 2019 and 2020, respectively. Our net profit margin³ was 18.82%, 28.49% and 31.04% in 2018, 2019 and 2020, respectively.

Our total assets increased from RMB195,082 million as at 31 December 2018 to RMB371,228 million as at 31 December 2020, constituting a CAGR of 37.95%. Our net assets grew from RMB47,863 million as at 31 December 2018 to RMB68,071 million as at 31 December 2020, constituting a CAGR of 19.26%.

Diversified financing channels and comprehensive liquidity safeguard mechanism

We tapped both the domestic and overseas capital markets with diversified financing channels. In 2018, we completed the listing of our A shares, two years after our debut on the Hong Kong Stock Exchange in 2016. We initially obtained the AAA-level issuer credit rating in 2013, and have been issued a corporate family rating of "Baa1" by Moody's with stable outlook and a long-term foreign and local currency issuer default rating of "BBB+" by Fitch with stable outlook.

Through establishing the shareholder rescue scheme, qualifying for obtaining the investor protection fund and entering into credit overdraft agreements with four major banks, including Bank of China, China Construction Bank, Industrial Bank Co., Ltd. and China Minsheng Bank, we have set up a comprehensive liquidity safeguard mechanism. In December 2019, CSRC promulgated Provisions on the Administration of Liquidity Support by the Securities Investor Protection Fund, which established the investor protection fund to provide liquidity support for securities companies. Our total credit lines from banks and other financial institutions amounted to RMB367.3 billion as at 31 December 2020, with sufficient unutilized credit lines. We have also entered into overdraft agreements with four large banks, including Bank of China, China Construction Bank, Industrial Bank Co., Ltd. and China Minsheng Bank, which in aggregate provide intraday overdrafts of RMB22 billion and overnight overdrafts of RMB22 billion for emergency liquidity needs.

We have diversified financing channels through multi-type debt financings, such as structured notes, short-term financing notes and subordinated bonds. We issued structure notes, short-term financing notes, placements from China Securities Finance Corporation Limited, subordinated bonds, perpetual subordinated bonds and financial bonds. Such diversified financing channels provide us with extra layers of protection against liquidity risks.

1 Return on average assets is calculated by dividing net profit by the average balances of total assets at the beginning and the end of the year.

2 Cost-to-income ratio is calculated by dividing total expense (excluding taxes and surcharges) by the sum of total revenue and other income.

3 Net profit margin is calculated by dividing net profit for the year by total revenue and other income.

Visionary, professional and dedicated management team

Our visionary management team is the bedrock of our success. Members of the team possess in-depth knowledge and extensive industry experience in the securities and financial industries. Our Chairman, Mr. Wang Changqing, has been with us since our inception. Mr. Wang is currently the vice chairman of the SAC, the chairman of the investment banking committee of the SAC, the president of the Securities Association of Beijing, and a member of the fifth session of board of directors of the SSE. Before joining us, he served as the administrative head and managing director of the investment banking business and vice chairman of the corporate finance committee in CITIC Securities Co., Ltd. from 1999 to 2005. He served as the head of equity underwriting department of the Beijing representative office of Daiwa Securities Group Inc. from 1993 to 1999.

Led by our Chairman, we have assembled a highly stable and professional management team with extensive industry expertise and strong executive capability. Most of our senior management have been with us since our inception, with an average over 22 years' experience in the securities industry. Many of them have worked with well-known financial institutions, such as CSRC, Central Huijin, Bank of China, ICBC and China Construction Bank. More than 60% of our mid-level and senior-level employees have more than 15 years' experience in the securities industry.

Our management and professional teams have been widely recognised in the PRC securities industry. Our management team have been awarded with Golden Management Team of Futures Companies in China by Securities Times, and Best Institution of the Year by SSE. Our investment advisory team have received the recognition of The Best Investment Advisory Team by New Fortune, and Junding Prize of China Securities Investment Advisory Team by Securities Times. Our investment bank team has been recognised as Golden Bull Investment Bank Team, and our research team has been recognised as Most Potential Research Team by China Securities Journal.

Our deeply rooted corporate culture is another key driver of our business development. We attach great importance to our pragmatic culture of “working hard to win a position” and our collaborative culture of “carrying an altruistic mind to achieve a win-win situation, and helping each out to realise common prosperity.” Our visionary management, seasoned professional teams and superior corporate culture, have enable us to distinguish ourselves from our competitors in the PRC securities industry.

BUSINESS STRATEGIES

To achieve our goal to become a large integrated securities company based in China with global vision and comprehensive advantages, we intend to pursue the following strategies:

- **Customer service:** We will stick to a client-oriented approach by relentlessly improving our customer service system and further strengthening customer development and services.
- **Talent strategy:** We will continue vigorously cultivating and recruiting talents, motivating key employees and improving the quality of employees.
- **Capital strength:** We plan to utilise various tools to continually enhance our capital strength and to optimise our balance sheet.
- **Information technology:** We plan to increase our R&D capacity, propel the integration and development of online and offline businesses. We also intend to continually strengthen digital governance.
- **Risk control and compliance:** We plan to construct a comprehensive and integrated risk control mechanism covering the entire process of all business lines, and continue to improve our risk control and management levels.
- **Management and operation:** Through reengineering and informatisation of our organisational process, we intend to vigorously promote the construction of a centralised operating system to further improve and optimize the efficiency and effectiveness of operations management.
- **Internationalisation strategy:** Through integrated management and development of domestic and foreign businesses, we plan to build a comprehensive cross-border business platform that integrates our bountiful resources and leverages our competitive advantages.

BUSINESS OF THE GROUP

Our principal businesses comprise four segments: (i) investment banking business, (ii) wealth management business, (iii) trading and institutional client services business, and (iv) asset management business. The table below sets out the detailed components of each business segment.

<u>Investment banking</u>	<u>Wealth management business</u>	<u>Trading and institutional client services business</u>	<u>Asset management business</u>
Equity financing business	Brokerage and wealth management business	Equity sales and trading business	Asset management business
Debt financing business	Margin financing and securities lending business	Fixed income products sales and trading business	Fund management business
Financial advisor business	Repurchase business	Investment and research business	Private equity investment business
		Prime brokerage business	
		QFII business and RQFII business	
		Other investment businesses	

The table below sets forth the breakdown of our total revenue and other income by business segments for the years indicated:

	For the year ended 31 December						
	2018		2019		2020		
	RMB	%	RMB	%	RMB	US\$	% ⁽¹⁾
	(in thousands, except for percentages)						
Investment banking	3,318,354	20.1%	3,873,031	20.0%	6,183,561	947,672	20.1%
Wealth management	6,381,333	38.7%	6,512,425	33.6%	8,305,045	1,272,804	27.0%
Trading and institutional client services	4,665,524	28.3%	6,544,107	33.7%	12,541,659	1,922,093	40.8%
Asset management	1,525,058	9.2%	1,731,963	8.9%	1,736,022	266,057	5.7%
Other businesses	601,573	3.6%	745,868	3.8%	1,953,838	299,439	6.4%
Total	16,491,842	100%	19,407,394	100%	30,720,125	4,708,065	100%

(1) Represent the percentage of RMB.

Investment banking

Our investment banking business consists of:

- equity financing business: to provide clients with equity financing services in domestic and overseas capital markets;
- debt financing business: to provide clients with debt financing services in domestic and overseas markets; and
- financial advisor business: to provide clients with domestic and cross-border M&A and restructuring, NEEQ quotation recommendation and financing services.

In 2020, we completed 2,446 equity and debt underwriting projects, with a lead underwriting amount of RMB1,373.1 billion, both of which ranked second in the PRC securities industry and remained among top three in the PRC securities industry for eight consecutive years. In 2020, the number and amount of equity projects underwritten by us as a lead underwriter ranked No. 2 in the PRC securities industry, and the number and amount of IPO projects underwritten by us as a lead underwriter ranked No. 1 in the PRC securities industry. The number of bonds underwritten by us as a lead underwriter ranked No. 2 and the amount of lead underwriting ranked No. 2 in the PRC securities industry, among which, both the number of projects underwritten by us as a lead underwriter and the amount of lead underwriting of corporate bonds ranked No. 1 in the PRC securities industry. The number of projects sponsored and underwritten by us ranked No. 1 among the first batch of enterprises listed on ChiNext registration system. The number of projects sponsored and underwritten by us ranked No. 1 among the first batch of NEEQ Select enterprises.

Through our full-license investment banking platform in Hong Kong, we are able to fully support our Chinese clients to “go global” by meeting their needs for overseas financing and cross-border M&A. We conduct our Hong Kong investment banking business through our subsidiary, China Securities International. In 2020, China Securities International completed 2 IPOs in Hong Kong market and the equity financing proceeds totaled HK\$2.9 billion.

Our investment banking brand plays an important role in attracting our corporate clients and has created significant synergies. For example, many equity financing transactions underwritten by us brought us clients in custody, margin financing and securities lending, and collateralised stock repurchase businesses; we proactively market asset management products to our large corporate clients who have close relationships with us; we also assist our qualified private equity portfolio companies in their domestic or overseas IPOs or M&As.

Our investment banking business has comprehensive industry coverage:

- Large industry-leading enterprises
 - Infrastructure: Beijing-Shanghai High Speed Railway, Air China, Shenzhen Airport Group, Beijing Subway, China National Chemical Engineering, China Gezhouba Group, Shanghai Tunnel Engineering, and China Railway Group
 - Energy and Raw Materials: Datang International Power Generation, China National Petroleum, POWERCHINA, Beijing Jingneng Power, Chongqing Three Gorges Water Conservancy and Electric Power, China General Nuclear Power, Zhongyuan Special Steel, and China Baowu Group
 - Military and Manufacturing: China North Industries Group, China South Industries Group, China Nuclear Engineering, SIASUN Robot & Automation, China Aerospace Science and Technology, China Aerospace Science and Industry, Neway Valve, and Taiji Computer
 - Finance: Central Huijin, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, Construction Bank of China, Bank of Communications, Postal Savings Bank of China, and China Galaxy Securities
- SMEs
 - TMT: Beijing Enlight Media, China Zhenhua Science & Technology, Sangfor Technologies, Hangzhou CNCR-IT, Dawing Information Industry, 263.net, and Beijing Sevenstar Electronics
 - High-end Manufacturing: Contemporary Amperex Technology, Harbin New Optoelectronics Technology, Yangling Metron New Materials, NavInfo, Easyhome, Scimee Sci. & Tech, Tongding Interconnection Information, and Jinhua Chunguang Technology

For the years ended 31 December 2018, 2019 and 2020, the total revenue and other income from our investment banking business segment amounted to RMB3,318.4 million, RMB3,873.0 million and RMB6,183.6 million (US\$947.7 million), respectively, representing 20.1%, 20.0% and 20.1% of the total revenue and other income, respectively.

Equity Financing

Our IPO pass-hearing rate reached 100% for 2020. In 2020, with further capital market reform and the first batch of delicately selected enterprises to be quoted on the NEEQ, STAR Market revolution and pilot registration system were successfully implemented, thus continuously improving the quality of listed companies. The number of equity financing projects we completed was 31, 38 and 68 in 2018, 2019 and 2020, respectively, ranking No. 2 in the PRC securities industry for 2020. In 2020, the aggregate amount of equity offerings underwritten by us as a lead underwriter reached RMB161,878 million, ranking No. 2 in the PRC securities industry. In particular, the number of IPOs underwritten by us as a lead underwriter was 39 in 2020, ranking No. 1 in the PRC securities industry, with an aggregate amount of underwritten as a lead underwriter of RMB83,200 million, ranking No. 1 in the PRC securities industry.

We sponsored and underwrote 7 of the first batch of 32 delicately selected enterprises to be quoted on the NEEQ, ranking No.1 in the PRC securities industry in 2020, and 3 of the first batch of 18 listed enterprises in the ChiNext reform and pilot registration system, also ranking No. 1 in the PRC securities industry. Among them, we took the lead in sponsoring and underwriting Arawana, China's kitchen food leader, which financed RMB13,933 million and became the largest IPO on the ChiNext.

The table below sets forth the amount of lead underwriting and the number of offerings about our equity sponsorship and underwriting for the years indicated:

Items	For the year ended 31 December					
	2018		2019		2020	
	Amount of lead underwriting (RMB'00 million)	Number of offerings	Amount of lead underwriting (RMB'00 million)	Number of offerings	Amount of lead underwriting (RMB'00 million)	Number of offerings
IPO	143.7	10	164.2	21	832.0	39
Refinancing Issuance	796.8	21	217.7	17	786.8	29
Total	940.5	31	381.9	38	1,618.8	68

According to Dealogic, for overseas business, the number of IPOs China Securities International completed was 14, 10 and 2 for the years ended 31 December 2018, 2019 and 2020, respectively, and the equity financing proceeds totaled HK\$79.3 billion and HK\$25.7 billion and HK\$2.9 billion for the years ended 31 December 2018, 2019 and 2020, respectively.

Debt Financing Business

We are equipped with proven capability for mega deal and product innovation. Historically, we completed multiple mega-deal and first-issuance transactions. We have the full license of onshore debt capital market underwriting business, with a coverage of corporate bonds, enterprise bonds, treasury bonds, financial bonds, government-backed bonds, non-financial corporate debt instruments and asset-backed securities. In 2017, we obtained the license as the first Chinese lead underwriter in Tokyo Pro Bond Market.

The total number of underwriting projects we completed as a lead underwriter increased by 152.0% from 586 in 2018 to 1,477 in 2019, and further increased by 61.0% to 2,378 in 2020, the cumulative total scale of the lead underwriting projects increased by 49.8% from RMB628,388 million in 2018 to RMB941,598 million in 2019, and further increased by 28.6% to RMB1,211,197 million in 2020, ranking No. 2 in the PRC securities industry in 2020. For corporate bonds, we completed 601 lead underwriting projects, with a lead underwriting scale of RMB440.7 billion, which is the largest scale in history, ranking No. 1 in the PRC securities industry for six consecutive years since 2015. In terms of product innovation, as the lead underwriter, we successfully issued nearly 31 green bonds, 55 pandemic prevention and control bonds, 5 bail bonds, 7 double innovation bonds and 7 special poverty alleviation debts.

The table below sets forth the amount of lead underwriting, total project scale and the number of offerings about our debt financing business for the years indicated:

Items	For the year ended 31 December								
	2018			2019			2020		
	Amount of lead underwriting	Total project scale	Number of offerings	Amount of lead underwriting	Total project scale	Number of offerings	Amount of lead underwriting	Total project scale	Number of offerings
	(RMB) (in million)			(RMB) (in million)			(RMB) (in million)		
Corporate bonds	240,537	502,653	262	383,034	720,254	416	440,659	920,028	601
Enterprise bonds	15,600	19,110	18	26,801	106,480	33	32,550	74,400	53
Convertible bonds	11,525	13,275	10	15,561	61,167	15	30,500	50,534	26
Financial bonds	96,123	302,450	47	152,705	847,700	59	172,545	1,182,930	89
Others*	264,603	626,414	249	363,497	3,234,995	954	534,943	4,362,091	1,609
Total	628,388	1,463,902	586	941,598	4,970,596	1,477	1,211,197	6,589,983	2,378

* “Others” mainly consist of medium-term notes, short-term commercial papers, private placement notes, asset-backed securitisation and government-backed agency bonds.

For overseas business, China Securities International completed 17, 23 and 47 overseas bond issuance transactions in offshore market for the years ended 31 December 2018, 2019 and 2020, respectively.

Financial Advisory Business

According to Wind Info, in 2018, we acted as financial advisor in 19 significant asset restructuring projects, ranking No. 1 in the PRC securities industry, with transaction amounting RMB60,527 million, ranking No. 3 in the PRC securities industry. In 2019, we completed 12 asset acquisition projects by way of issue of shares, ranking No. 1 in the PRC securities industry, with a transaction amount of RMB69,197 million, ranking No. 2 in the PRC securities industry. In 2020, we completed 10 projects of asset acquisition by way of issue of shares and material assets restructuring, ranking No. 3 in the PRC securities industry, with a transaction amount of RMB34,122 million, ranking No. 5 in the PRC securities industry.

According to Wind Info, in 2018, as a chief agency broker, we recommended 22 companies to be quoted on NEEQ. As at 31 December 2018, we continuously oversaw 314 listed enterprises, among which, 52 enterprises were engaged in the innovation sector, ranking No. 2 in the PRC securities industry. In 2019, as a chief agency broker, we recommended 6 companies to be quoted on the NEEQ and completed 25 private placement projects, and raised a total of RMB4,701 million, ranking No. 1 in the PRC securities industry. As at the end of 2019, we continuously oversaw 34 enterprises in the innovation sector on the NEEQ, ranking No. 2 in the PRC securities industry. As at the end of 2020, we had completed private placement of 21 companies listed on NEEQ market, which raised total proceeds of RMB1,006 million, and had continuously overseen 47 enterprises in the innovation sector on the NEEQ, ranking No. 3 in the PRC securities industry.

For overseas business, in 2020, China Securities International completed five merger projects, two financing projects and six financial advisory projects in Hong Kong’s secondary market.

Wealth management

Our wealth management business primarily consists of:

- Brokerage and wealth management business: we provide individual and corporate clients with brokerage of stocks, bonds, funds, derivatives and other tradable securities, and offer investment advisory services customised for wealth management clients to meet their risk and return preferences. We distribute financial products developed in house and by third parties;
- Margin financing and securities lending business: we offer margin financing and securities lending services to our clients; and

- Repurchase business: we enter into collateralised stock repurchase and contractual repurchase transactions with our clients.

In 2020, the net income from our securities brokerage business accounted for 3.32% of the market share, ranking No. 10 in the PRC securities industry; the net income from our distribution of financial products had a market share of 4.21%, and ranked No. 8 in the PRC securities industry; the market value of securities under custody for our clients accounts had a market share of 7.22%, and ranked No. 2 in the PRC securities industry.

We have strong ability in acquiring wealth management clients. In addition to our 21 branch companies and 292 securities branches covering 30 provinces, autonomous regions and direct-administered municipalities across the country, we have established mutually beneficial cooperation relationships with major commercial banks in the PRC. By providing stock and fund investment advisory services to the large number of banking clients of these commercial banks, we can develop them into our wealth management clients.

We have strong capability in distributing third-party financial products. With respect to client services, we have a group of professional and highly capable financial planners who provide one-on-one customised services to our mid-to-high-end clients. We have established a full product line covering cash management, fixed income, equity investment, futures and OTC derivatives. In addition, we also provide mid-to-high-end clients with capital-based intermediary financing services, among which our margin financing and securities lending, collateralised stock repurchase and contractual repurchase businesses are competitive in the PRC securities industry.

We have high-quality customer base. As at 31 December 2020, our total number of clients' capital accounts reached approximately 8,999.4 thousands, with a market share of 3.47%, ranking No. 10 in the PRC securities industry.

We have interconnected online and offline service channels to acquire customers. We collaborate with multiple types of online service channels, such as securities vertical channel, quasi-vertical channel, process platform, PC trading terminal, web-based trading platform, mobile apps, official wechat account and external channels. We also resort to traditional offline service channels to acquire customers, including banks, insurance companies and other financial institutions.

Our investment advisory business is in the industry-leading position. We launched industry-innovative "Xianrenzhang" investment advisory products. We kept optimizing our financial product system, by launching "Guyilian" and "Gushoubao" products. As at 31 March 2021, we had approximately 3,000 investment advisors. We utilised our leading advantage in online investment advisory service platform, serving 36 million persons/times in 2020.

The trading amount of futures brokerage was RMB5.9 trillion, RMB7.9 trillion and RMB11.4 trillion for 2018, 2019 and 2020, respectively. The closing balance of our margin financing and securities lending business was RMB25,122 million, RMB29,282 million and RMB55,152 million as at 31 December 2018, 2019 and 2020, respectively. The total balance of principal of our collateralized stock repurchase business was RMB33,908 million, RMB29,997 million and RMB19,050 million as at 31 December 2018, 2019 and 2020, respectively.

For the years ended 31 December 2018, 2019 and 2020, the total revenue and other income from our wealth management business segment amounted to RMB6,381.3 million, RMB6,512.4 million and RMB8,305.0 million (US\$1,272.8 million), respectively, representing 38.7%, 33.6% and 27.0% of the total revenue and other income, respectively.

Brokerage and Wealth Management Business

With respect to future brokerage business, in 2020, our net income from the securities brokerage business accounted for 3.32% of the market share, ranking No. 10 in the PRC securities industry. The trading volume of the agency sales of equity funds increased by 38.1% from RMB5.17 trillion 2018 to RMB7.14 trillion in 2019, and further increased by 81.1% to RMB12.93 trillion in 2020, with a market share of 3.31% in 2020. The sale of standardised products amounted to RMB59,754 million, RMB55,744 million and RMB111.4 billion for the years ended 31 December 2018, 2019 and 2020, respectively, and the net income from the distribution of financial products had a market share of 2.88%, 3.02% and 4.21%, in 2018, 2019 and 2020, respectively, ranking No. 8 in the PRC securities industry in 2020.

As at the end of 2020, the number of our new capital accounts was approximately 660 thousands; the total number of our clients' capital accounts was approximately 8,999.4 thousands, with a market share of 3.47%, ranking No. 10 in the PRC securities industry. In 2020, the market value of securities under custody for our clients accounts was RMB4.31 trillion with a market share of 7.22%, ranking No. 2 in the PRC securities industry; in which our new clients' assets amounted to RMB1,488,786 million.

As at the end of 2020, we had 292 securities branches, of which 57% were located in Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong, and 53 were located in Beijing (including Beijing Hongyi Branch). As the securities company with the largest number of securities branches in Beijing, we have established a solid client base for its brokerage and wealth management businesses.

The amount of agency transactions China Securities Futures achieved increased by 33.5% from RMB5.89 trillion in 2018 to RMB7.86 trillion in 2019, and increased by 45.5% to RMB11.43 trillion in 2020. In 2020, the revenue and net profit of China Securities Futures reached record high and acquired new customers of 23,795, representing an increase of 44.2% year-on-year. As at the end of 2020, the scale of customer equity reached RMB14,252 million, representing an increase of 107.4% from the end of 2019. As at the end of 2020, China Securities Futures had set up 25 branches and a subsidiary in charge of risk management in Chongqing, which has laid a solid foundation for futures brokerage and risk management business.

For the overseas business, China Securities International provides wealth management services to clients of our securities brokerage business including institutional clients and high-net-worth individuals. In 2020, the aggregate transaction amount of stock agency of China Securities International was HK\$43,216 million, with 2,899 new clients and 12,757¹ clients in aggregate, and the total market value of stock under custody for our clients' accounts was HK\$20,100 million.

Margin Financing and Securities Lending Business

According to SAC, the closing balance of our margin financing and securities lending business was RMB25,122 million, RMB29,282 million and RMB55,152 million as at the end of 2018, 2019 and 2020, respectively, with a market share of 3.41% in 2020, ranking No. 10 in the PRC securities industry in terms of interest income from margin financing and securities lending in 2020. The number of margin financing and securities lending accounts increased by 6.9% from 137,000 at the end of 2018 to 146,400 at the end of 2019, and further increased by 8.3% to 158,500 at the end of 2020.

For the overseas business, the balance of China Securities International's margin financing and securities lending business was HK\$753 million, HK\$66 million and HK\$109 million, at the end of 2018, 2019 and 2020, respectively.

¹ According to the requirements of the Securities and Futures Commission of Hong Kong for the protection of customer assets and the handling of "dormant accounts", in the Customer Service and Account Management Manual, the Company will convert accounts without holding funds or stocks, and the accounts of those users. The user who have not conducted any transaction for two years or above or the accounts in frozen status for more than 12 months will be converted into dormant accounts. Dormant accounts were excluded from the statistics of the cumulative number of customers commencing from March 2020.

Repurchase Business

As at the end of 2020, our total balance of principal of collateralised stock repurchase business was RMB19,050 million, among which, scale of investment (in the table) of collateralised stock repurchase business amounted to RMB9,615 million, with an average collateral coverage ratio of 419.99%; management (off the table) collateralised stock repurchase business amounted to RMB9,435 million. According to SAC, we ranked No. 10 in the PRC securities industry in terms of interest income from collateralised stock repurchase.

Trading and institutional client services

Our trading and institutional client services consists of:

- Equity sales and trading business,
- Fixed income products sales and trading business,
- Investment and research business,
- Prime brokerage business,
- QFII business and RQFII business, and
- Other investment businesses.

According to Wind Info, we were licensed to be Bond Connect quoting broker in July 2018 and remained as one of the top five securities firms among all the market makers, and we have been one of the top 15 bond market makers in PRC onshore interbank bond market since 2018. We have a large and strong institutional client base, including mutual funds and private equity funds, QFII, RQFII, commercial banks, insurance companies, pension funds, sovereign funds, hedge funds, finance companies, investment companies, listed companies and asset management companies. The number of our institutional clients grew significantly, from approximately 11,000 as at 31 December 2018 to approximately 12,000 as at 31 December 2019 and further to approximately 15,000 as at 31 December 2020.

In addition, we provide agency sale services of a variety of financial products to our financial institution clients through online and offline brokerage network. Our clients consist of mutual funds, private equity funds, securities firms, trust companies, futures companies, commercial banks, insurance companies, private equity fund management companies and other financial institutions.

Our full and in-depth investment research business covers 34 areas, including but not limited macro-economics, strategy research, fixed income, financial engineering, fund research, asset allocation, bank, NBFII, telecom, computer, electronics, electric equipment and new energy, real estate, chemical, non-metal construction materials, machinery, beverages, medical, and public utilities. We have a solid and professional research and sales team, consisting of 172 members as at 31 December 2020, which completed 5,077 reports in 2020. Our research team has received numerous awards and recognitions, including but not limited to:

- Research house of greatest potential by Securities Times;
- Golden Bull Awards for Telecom, Military, Light manufacturing and Public utilities teams by Securities Times; and
- Telecom, Machinery, Fixed income teams on the list for Best Analyst Awards by New Fortune.

For the years ended 31 December 2018, 2019 and 2020, the total revenue and other income from our trading and institutional client services business segment amounted to RMB4,665.5 million, RMB6,544.1 million and RMB12,541.7 million (US\$1,922.1 million), respectively, representing 28.3%,33.7% and 40.8% of the total revenue and other income, respectively.

Equity Sales and Trading Business

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

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

With respect to stock sale business, we continued to expand coverage of institutional clients. In 2020, we completed 76 stock sale projects as a lead underwriter, with an aggregate sales amount of RMB163,646 million, including 39 IPOs, 25 non-public share and 3 placings, 1 public follow-on offering and 8 delicately selected NEEQs quoted on the board. Our overall stock sales business achieved new success and completed a number of influential projects: the underwriting amount of IPO projects and non-public offering projects ranked No. 1 and No. 2 in the PRC securities industry respectively.

For the overseas business, our equity sales and trading business mainly provides trading, advisory and research services, and distributes equity securities underwritten by us to institutional clients. In 2020, China Securities International has formed a cross-industry, cross-market and cross-asset research service matrix, constantly improving the service system for customers of multi-strategic buyer institutions, further enhancing its influence in the secondary stock market in Hong Kong and gradually establishing brand awareness.

Fixed Income Products Sales and Trading Business

We maintained a stable pattern in proprietary investment, in particular the proprietary investment in bonds, which precisely caught up with market trend with the combination of a stable allocation and positive directional trading, hence achieving a satisfactory result in bond investment, with a rate of return exceeding all indexes in the market. Meanwhile, we were included among prime market-makers (including banks) in inter-bank bond market, and among top five attempted market-makers. We were newly granted the qualification for foreign exchange business, and our spot, forward, swap and option businesses were fully developed and revenue has been achieved. Our FICC full license business system was initially established. We issued the first credit protection certificates, which set an example of innovation in the PRC securities industry.

We maintained our traditional leading position in terms of bond sales. We recorded significant increase in competitive sale of credit bonds, as we sold 301 credit bonds in the year. Interest rate bond sales amounted to RMB135.9 billion in 2020, including underwriting amount of local government bonds of RMB53.3 billion, ranking No. 2 in the PRC securities industry. We exerted great effort to develop cross-border business, and made a good start in return swap cross-border investment, with progressively increase in size and satisfactory gains.

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

For the overseas business, as at the end of 2020, the volume of China Securities International's bond trading was approximately HK\$37.1 billion.

Investment and Research Business

Our investment research business mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. We provide clients with research reports and various kinds of tailored research consultation services. We increased our efforts in introduction of high-end research talents, and effectively understood market situation and market focus by enhancing research planning and cross-industry interactions by focusing on new economy and riding on the launch of STAR Market. As at the end of 2020, our research and sale teams comprised 172 members, who published a total of 5,077 research reports of various types, extending the industry coverage and coverage of overseas listed companies. At present, our research operations cover 34 areas. In 2020, we organised 25,497 road shows, 570 surveys, and successfully organised a number of large and professional conferences.

For the overseas business, China Securities International fully gives play to the advantages of cross-market research resources such as A shares and Hong Kong stock market, provides high-quality research services according to the investment preferences of overseas institutional customers, and further enhances the popularity of research business in Hong Kong and overseas markets.

Prime Brokerage Business

We recorded significant increase in algorithmic trading volume, and added four trading varieties including stock index futures, southbound trading, STAR Market and convertible bond, and two algorithmic strategies. As at 31 December 2020, the number of existing customers of our prime brokerage business was 3,918, representing a year-to-year increase of 75.62%. A total of 21 public fund companies and 9 insurance asset management institution used our algorithm trading services. A total of 60 customers used our agency reduction service.

We continued to launch new public funds custodian business, covering a number of innovative products including ETF, Southbound Trading and securities settlement. We also actively developed outsourced wealth management product custodian services of banks. Our total scale of custody and our operating services increased by 46.5% from RMB204,719 million at the end of 2018 to RMB300,010 million at the end of 2019 and further increased by 34.8% to RMB404,435 million at the end of 2020, with a leading position in the PRC securities industry in terms of growing speed. In 2020, the number of products under custody reached 2,589, and products of operating service reached 2,454, representing an increase of 43.0% and 48.1%, respectively, as compared with that at the end of 2019.

QFII Business and RQFII Business

We carry out QFII and RQFII brokerage agency trading business. Our QFII and RQFII businesses have developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services by leveraging and integrating the competitive resources in domestic business and our overseas platforms, constantly developing international market and developing customer demands.

Other Investment Businesses

Domestic and international economic climate became increasingly complicated, and the market was filled with risks including decrease in quality investment subjects, inverted prices in primary and secondary markets, and higher uncertainties in investment withdrawal. In such a context, China Securities Investment earnestly and proactively selected investment subjects, and implemented investment layout work in an orderly manner by following the principle of “maintain stable and sustainable development” and completed 62 investment projects at an aggregate amount of RMB1,497 million in 2020.

Asset management Business

Our Asset management services include:

- Asset management business,

- Fund management business, and
- Private equity investment management business.

We provide clients with collective, targeted and specialised investment management schemes services. We commenced the asset management business in 2009 and launched our first CAM scheme product in January 2010. We established our fund management subsidiary, China Securities Funds, in September 2013 and we strive to develop it into a large fund management platform with robust and prudent investment style. In addition, we established China Securities Capital, a wholly-owned direct investment subsidiary, as the strategic platform for carrying out our private equity investment business in July 2009. We aim to provide a powerful and comprehensive platform for the private equity investment business, through which we assist enterprises to achieve significant growth by providing them with comprehensive capital market services from equity financing to public listing.

For the years ended 31 December 2018, 2019 and 2020, the total revenue and other income from our asset management business segment amounted to RMB1,525.1 million, RMB1,732.0 million, and RMB1,736.0 million (US\$266.1 million), respectively, representing 9.2%, 8.9% and 5.7% of the total revenue and other income, respectively.

Asset Management Business of Securities Company

We provide professional asset management services including collective asset management business, targeted asset management business, asset-backed securitisation, in order to help clients preserve and increase the value of financial assets. At present, we have built a complete product line to meet the investment needs of clients with different preferences on risks and return. We exerted great efforts to develop our investment management capacity, accelerated optimisation of asset management business structure, extensively issued active management products, increased the ratio of active management business, and increased our efforts in development of “net value” products. As at the end of 2020, our entrusted AUM reached approximately RMB490,282 million, ranking No. 7 in the PRC securities industry according to the statistics of SAC. Among which, the active AUM reached approximately RMB336,661 million, with an annual increase of RMB104,347 million, representing a year-on-year increase of 44.92%.

In 2020, we strictly implemented the new regulations on asset management and the requirements for collective rectification. As at the end of 2020, through continuous rectification work, the scale of rectification had been reduced to nearly RMB390 billion. In 2020, we completed the public offering transformation of the first large-scale collective product, the value growth collective asset management plan of China Securities Investment.

The table below sets forth the scale of our asset management business for the years indicated:

	As at 31 December		
	2018	2019	2020
	(RMB) (in million)		
AUM under collective asset management business . . .	30,166	28,559	50,176
AUM under targeted asset management business	580,795	438,580	298,215
AUM under specialised asset management business . .	41,268	80,630	141,891
Total	652,229	547,769	490,282

Source: The Securities Association of China, the Asset Management Association of China

Fund Management Business

China Securities Funds focused on enhancing market competitiveness by strengthening its investment and research capabilities, diversified product lines and improve the customer service system, actively explored new business fields, accelerated product launch and optimised product structure. The AUM of China Securities Funds decreased by 15.0% from RMB94,381 million as at the end of 2018 to RMB80,196 million as at the end of 2019, and further decreased by 31.0% to RMB55,317 million in 2020. According to Wind Info and SAC, as at the end of 2020, China Securities Funds managed a total of 23 public funds (including 5 products established in 2020 and one index fund not included in ranking); 8 of 17 products were included among the top 50% in the market, among which one entered top 5% of the market.

Private Equity Investment Business

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

In 2020, China Securities Capital established a number of projects, and 6 portfolio companies invested by China Securities Capital passed the IPO review of the CSRC, including 5 on STAR Market and 1 on ChiNext. As at the end of 2020, China Securities Capital managed a total of 41 funds, with the fund management scale of RMB37,214 million. As at the end of 2020, China Securities Capital completed over 158 investment projects, including 10 main board listings of SSE or SZSE, 3 SME board listings, 8 ChiNext listings, 7 STAR Market listings and 25 NEEQ listings. As at 31 December 2020, the projects invested by China Securities Capital were exited with average investment yield of 108%.

MARKET AND COMPETITION

After over 30 years of orderly development, China's securities market has becoming a significant part of the global capital market. Securitisation ratio, corporate financing structure, market participant mix and securities firms' leverage ratio and revenue structure all indicate that China's capital market still has huge room for development in terms of penetration, coverage and density. With diversification of financial products and the improvement and development of capital market, China's securities market will gradually release its huge growth potential.

The securities industry in China is under strict supervision, and securities firms must comply with a large number of supervisory regulations in every aspect, including business licensing, scope of products and services, business development and risk control. The competition has been intense in the PRC securities industry and will remain so in the future.

In the securities brokerage business, we compete primarily with other PRC securities firms in pricing, the scope and quality of products and services offered. For the investment banking business, we compete primarily with other PRC joint venture securities firms, as well as PRC commercial banks in branding, marketing and underwriting capacity, service quality, professional competence, financial strength and pricing. In the asset management business, we compete primarily with fund management companies, banks, insurance companies, trusts and other securities firms in the PRC in the range of products and services offered, pricing and quality of client service. Some of our competitors may enjoy certain competitive advantages, including greater financial resources, more sophisticated management experience and more advanced information technology systems, wider geographic coverage and the ability to offer more financial products and services than us. In addition, with the deregulation of the PRC securities industry, more competitors may enter the market and existing competitors may expand their market shares. We believe that the financial service industry in China will become increasingly competitive, which will accelerate transformative innovation and differentiate development of PRC securities firms.

AWARDS

In recognition of its outstanding business achievements and management capabilities, we have received prestigious awards and honours in recent years, including, among others:

- 2020 The Whole Nation Civilized Unit by The Central Guidance Commission on Building Spiritual Civilization

- 2020 Demonstration Unit of National Financial System Workers' Congress System Construction by National Committee of Chinese Financial Workers' Union
- 2020 Outstanding Market Maker of ETF by SSE
- 2020 Outstanding Bond Dealer, Outstanding Underwriter of Local Government Bonds, Outstanding Bond Investment Agency (proprietary trading), Excellent Underwriter of Corporate Bonds, Excellent Underwriter of Corporate Bond Innovative Product, Excellent Trustee, Excellent Manager for Asset Securitization Business by SSE
- 2020 Outstanding ETF Liquidity Service Provider by SZSE
- 2020 Outstanding Interest Rate Bond Undertaking Institution, Excellent Underwriter of Corporate Bonds, Excellent Private Enterprise Financing Supporting Institution, Excellent Asset-Backed Special Manager, Excellent Bond Investment Trading Institution by SZSE
- Participating Unit of Information Technology Application Innovation Center of Securities and Fund Industry by 2020
- 2020 Outstanding Member for Investor Education and Excellent Institution of the Year by SSE
- 2019 Outstanding Member for Listing of Companies on SSE STAR Market by SSE
- 2019 Outstanding Member for Trading Management on SSE STAR Market by SSE
- 2019 Excellent Underwriting Institution for Corporate Bonds, 2019 Comprehensive Innovation Award for Corporate Bonds, 2019 Excellent Manager of Asset-backed Special Plan and ABS Integrated Innovation Award by SSE
- 2019 Excellent Corporate Debt Underwriters, Excellent Bond's Duration Management Institution, Excellent Fixed Income Business Innovation Institution by SZSE
- 2019 Outstanding Member for Investor Education and Best Institution of the Year by SSE
- 2019 Outstanding Market Maker of ETF by SSE
- 2019 Outstanding ETF Liquidity Service Provider by SSE
- 2019 Silver Award of Marketing Making by Shanghai Futures Exchange
- 2019 Innovative and Outstanding Products of Participating Institutions, Outstanding Bonds of Dealers by SSE
- 2019 Outstanding Interest Rate of Bond Undertaking Institution by SZSE
- 2019 Core Dealers by China Foreign Exchange Trading System
- 2019 Core Dealers, Outstanding Bond Market Dealers, Foreign Contribution Prize by China Foreign Exchange Trading System
- Excellent Underwriting Institution for Corporate Bonds for 2017 to 2019 by Shanghai Stock Exchange

EMPLOYEE

As at 31 December 2020, we had a total of 9,994 employees. We are committed to recruiting, training and retaining skilled and experienced employees throughout our operations. We intend to achieve this by offering competitive remuneration packages as well as by focusing on training and career development.

The following table sets forth the number of our employees in each function as at 31 December 2020:

Function	Number of employees
Brokerage business	5,890
Investment banking	1,192
Information technology	608
Financial planning	268
Administration	55
Research	219
Fixed income business	149
Asset management business	328
Margin financing and securities lending businesses	48
Security investment	97
Settlement	152
Legal compliance/audit	456
Risk management	96
Others	436
Total	9,994

RISK MANAGEMENT

Overview

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

Structure of Risk Management

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

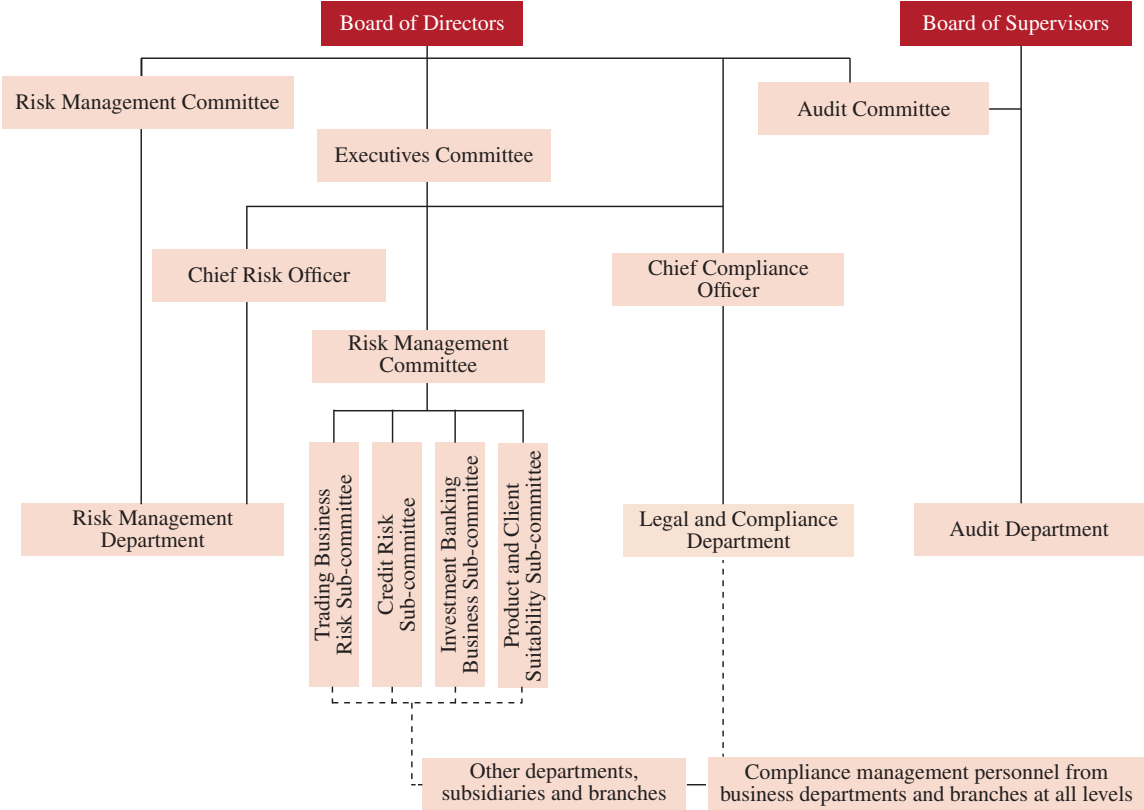
The Board of Directors makes decisions with respect to our risk management strategies and policies, internal control arrangements, as well as the resolution of significant risk events. The Supervisory Committee carries out supervision on the performance of risk management duties of the Board of Directors,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

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

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

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

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



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

Risk Management Mechanism

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

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

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

The following table sets forth our key risk control indicators:

Items ²	2018	2019 ¹	2020	Regulatory warning threshold	Regulatory limit
Net capital(RMB in million)	41,030	54,789	65,035	–	–
Net assets (RMB in million)	46,055	54,901	65,311	–	–
Risk coverage ratio	240.13%	311.65%	309.29%	≥120%	≥100%
Capital leverage ratio	23.02%	24.56%	20.16%	≥9.6%	≥8.0%
Liquidity coverage ratio	525.32%	227.69%	215.93%	≥120%	≥100%
Net stable funding ratio	196.74%	172.29%	156.82%	>120%	≥100%
Net capital/net assets	89.09%	99.80%	99.58%	≥24%	≥20%
Net capital/liabilities	40.89%	36.84%	30.24%	≥9.6%	≥8.0%
Net assets/liabilities	45.89%	36.92%	30.36%	≥12%	≥10%
Proprietary equity securities and securities derivatives/net capital	9.27%	16.17%	19.64%	≤80%	≤100%
Proprietary non-equity/securities and securities derivatives/net capital	182.35%	192.49%	236.63%	≤400%	≤500%

Note 1: The net capital and relevant risk control indicators of 31 December 2019 have been restated in accordance with the CSRC Announcement [2020] No. 10 regarding the Provision on the Calculation Basis for Risk Control Indicators of Securities Companies (《證券公司風險控制指標計算標準規定》).

Note 2: All risk control indicators of the Company complied with the relevant requirements of the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC.

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

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

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

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

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

We, by continuously promoting the implementation of consolidated management, further optimised the comprehensive risk management mechanism, kept enhancing internal control, risk measurement, credit risk management and risk management in the subsidiaries. Our risk management capability of grouping and our fine management level have been further strengthened by increasing input in staffing and development of risk management system.

LEGAL PROCEEDINGS

We may become a party to legal proceedings arising in the ordinary course of our business. There has been no legal proceeding pending or threatened against us that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

The following table sets forth information regarding our directors as at the date of this offering circular:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Wang Changqing	57	Chairman of the Board, Executive Director and Chairman of Executive Committee
Li Geping	53	Executive Director, General Manager, Member of Executive Committee and Chief Financial Officer
Yu Zhongfu	50	Vice Chairman of the Board and Non-executive Director
Wang Xiaolin	58	Vice Chairman of the Board and Non-executive Director
Zhang Qin	50	Non-executive Director
Zhu Jia	38	Non-executive Director
Wang Hao	52	Non-executive Director
Dai Deming	58	Independent Non-executive Director
Bai Jianjun	65	Independent Non-executive Director
Liu Qiao	50	Independent Non-executive Director
Po Wai Kwong	64	Independent Non-executive Director
Lai Guanrong	59	Independent Non-executive Director

Executive Directors

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

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

Non-Executive Directors

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

Mr. Wang Xiaolin (王小林) Mr. Wang, born in February 1963, is the Vice Chairman and Non-executive Director of the Company. Mr. Wang has been serving as a non-executive Director of the Company since July 28, 2020, the vice chairman of Board the Company since September 25, 2020, an external director of Central Huijin since June 2018, and a non-executive director of China Everbright Group since June 2018. Mr. WANG successively served as the deputy general manager of the securities management headquarters at Shandong International Trust Co., Ltd. (山東省國際信託投資有限公司), a general manager assistant of Shandong High-Tech Investment Corporation Co., Ltd. (山東省高新技術投資有限公司), the head of the general office at Shandong Lucion Investment Holdings Group Co., Ltd., (山東省魯信投資控股集團有限公司), the secretary of CPC Committee and general manager of Shandong International Trust Co., Ltd., a member of CPC Committee and the deputy general manager at Shandong Lucion Investment Holdings Group Co., Ltd. (山東省魯信投資控股集團有限公司), the chairman of First-trust Fund Management Co., Ltd., (泰信基金管理有限公司), the deputy head (temporary) of the International Department at China Banking Regulatory Commission, and the deputy secretary of CPC Committee and general manager of Shandong Development Investment Holding Group Co., Ltd. (山東發展投資控股集團有限公司) from May 1998 to May 2018. He concurrently served as an independent director of Shandong Hi-speed Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600350) from December 2016 to April 2019, and a director of China Everbright Bank Company Limited, (a company listed on the Hong Kong Stock Exchange, stock code: 06818, and on the Shanghai Stock Exchange, stock code: 601818) from October 2018 to July 2020. Mr. WANG obtained his master's degree in economics from Fudan University in June 1997 and obtained the title of a senior economist in June 2001.

Ms. Zhang Qin (張沁) Ms. Zhang, born in August 1970, is a Non-executive Director of the Company. She has been serving as a Director of the Company since April 2018, an assistant to the general manager and the general manager of audit and monitoring department of BSCOMC since July 2016, an assistant to the general manager and the general manager of legal and audit department of BSCOMC since March 2018 and an assistant to the general manager and general manager of risk control and audit department of BSCOMC since September 2019. Ms. Zhang was engaged in fundamental accounting in Tianjin Huafeng Industrial Group Co., Ltd. (天津華豐工業集團公司) from August 1992 to September 1994, and served as an accountant in Beijing Capital Development Co., Ltd. (北京市房地產開發經營總公司) from July 1997 to July 1998. She served as an accountant and the deputy manager in Beijing Tianhong Group Co., Ltd. (北京天鴻集團公司) from July 1998 to March 2006, and served as the chief financial officer of property operation and service department in Beijing Capital Development Holding (Group) Co., Ltd. (北京首都開發控股集團(有限)公司) from March 2006 to April 2008. Ms. Zhang served as the deputy general manager of Beijing Shoukai Renxin Property Co., Ltd. (北京首開仁信置業有限公司) from April 2008 to May 2010, and has served as the deputy general management of financial management department of BSCOMC since May 2010. Ms. Zhang obtained a bachelor of engineering from Beijing University of Chemical Technology in August 1992, and obtained a master's degree of economics from Capital University of Economics and Business in July 1997. Mr. Zhang obtained a title of senior accountant in October 2002.

Ms. Zhu Jia (朱佳) Ms. Zhu, born in October 1982, is a Non-executive Director of the Company. She has been serving as a Director of the Company since April 2018, the assistant to the general manager of investment management department of Beijing Financial Holdings Group since April 2019 and the director of Jingquan capital management (Beijing) Co., Ltd.(璟泉資本管理(北京)有限公司) since October 2020. Ms. Zhu worked in the Beijing branch of the Bank of East Asia (Hong Kong) (東亞銀行(香港)北京分行) from November 2004 to December 2009. She held positions in BSCOMC from January 2010 to April 2019. Ms. Zhu obtained a master's degree of finance and investment from the University of Exeter in November 2004. Ms. Zhu obtained a title of financial economist in November 2010.

Mr. Wang Hao (汪浩) Mr. Wang, born in December 1968, is a Non-executive Director of the Company. Mr. Wang has been serving as a Director of the Company since December 2017, as an external director of Central Huijin from July 2018 and as a director of Hengfeng Bank Co., Ltd. since September 2020. Mr. Wang served in the Bank of China Limited (a company listed on the HKEX (stock code: 03988) and the SSE (stock code: 601988)) from July 1991 to July 2018. He once served as the president and party secretary of Liuzhou branch, the president and party secretary of Guilin branch of Bank of China, an assistant to the president and a member of the Communist Party Committee of Guangxi Zhuang Autonomous Region branch of Bank of China, and the president of Ho Chi Minh City branch of Bank of China, the president of Ho Chi Minh City branch of Bank of China (Hong Kong) Limited and as a supervisor of China Everbright Group Limited from November 2019 to September 2020. Mr. Wang obtained a Bachelor's degree in Economics from Fudan University in July 1991 and a Master's degree in business administration from China Europe International Business School in September 2005.

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

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

Mr. Liu Qiao (劉俏) Mr. Liu, born in May 1970, is an Independent Non-executive Director of the Company. Mr. Liu has been serving as an Independent Director of the Company since August 2016, a member of the expert panel of the SZSE since March 2006, a supervisor of the post-doctoral station of SZSE since September 2007, the professor of finance and economics, doctoral supervisor, associate dean and director of EMBA Center at the Guanghua School of Management of Peking University since December 2010, a supervisor of the post-doctoral station of CSRC since September 2011, a supervisor of the post-doctoral station of China Minsheng Bank Corp., Ltd since September 2011, a supervisor of the post-doctoral station of China Financial Futures Exchange since September 2012, an independent director of Zensun Enterprises Limited (a company listed on the HKEX, stock code: 00185) since July 2015, and an independent director of Beijing Capital Co., Limited (a company listed on the SSE, stock code: 600008) since December 2017, an independent director of China Merchants Bank Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 03968) and SSE (stock code: 600036)) since November 30, 2018 and an independent director of Megvii Co., Ltd. since December 2020. Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong from September 2000 to November 2001, a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company from December 2001 to July 2003, an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong from August 2003 to December 2010. Mr. Liu obtained a Bachelor of Science degree in Economics and Mathematics from Renmin University of China in July 1991, a Master's degree in International Finance and Economics from the Institute of Finance of PBOC (currently known as PBC School of Finance, Tsinghua University in China) in April 1994 and a Ph.D. in Economics from University of California, Los Angeles in the United States in June 2000. Mr. Liu was granted the Outstanding Youth Award of National Natural Science Foundation of China (國家自然科學基金傑出青年獎) in December 2013 and awarded the title of distinguished professor (特聘教授) of Changjiang Scholars Program by Ministry of Education in December 2014.

Mr. Po Wai Kwong (浦偉光) Mr. Po, born in 1957. Mr. Po has served as an independent director of Everbright Securities Company Limited (a company listed on the Shanghai Stock Exchange (stock code: 601788) and the Hong Kong Stock Exchange (stock code: 6178)) since December 2020. He is currently a member of the International Advisory Council of the CSRC and the Advisory Committee of the Hang Seng Index in Hong Kong. Mr. Po previously served as the executive director of the Insurance Authority (保險業監管局) of Hong Kong and the senior director of the Securities and Futures Commission (SFC) (證券及期貨事務監察委員會) of Hong Kong. Mr. Po holds a bachelor's degree in business administration and a master's degree in business administration from the Chinese University of Hong Kong (香港中文大學), and is also an accountant.

Mr. Lai Guanrong (賴觀榮) Mr. Lai, born in 1962. Mr. Lai has served as the chairman of the board of supervisors of Beijing Zhongguancun Science City Construction Holding Co., Ltd. (北京中關村科學城建設股份有限公司) since January 2015, the vice chairman of ABC Life Insurance Co., Ltd. (農銀人壽保險股份有限公司) since February 2013, a director of China Sciences Group (Holding) Corporation (中科實業集團(控股)有限公司) since April 2015, an independent director of Chinasoft International Limited (中軟國際有限公司) (a company listed on Hong Kong Stock Exchange (stock code:03547)) since June 2015, the chief economist and member of the investment committee of Shenzhen CMAF Management Co., Ltd. (深圳遠致富海投資管理有限公司) since August 2018, and an independent director of Xin Yuan Enterprises Group Limited (信源企業集團有限公司) (a company listed on Hong Kong Stock Exchange (stock code:1748)) since September 2018. Mr. Lai previously served as the deputy general manager (in charge of work) of Min Fa Security Limited Company (閩發證券有限責任公司), the deputy chief officer of the office of People's Bank of China Fujian Branch (中國人民銀行福建省分行), the general manager of Fujian Minnan Qiaoxiang Trust and Investment Company (福建省閩南僑鄉信託投資公司), the president of Huafu Securities Limited* (華福證券有限責任公司), and the secretary of the party committee and president of Jiahe Life Insurance Co., Ltd. (嘉禾人壽保險股份有限公司). Mr. Lai holds a bachelor's degree in finance from Xiamen University, a master's degree in monetary banking from the Graduate School of the People's Bank of China, and a doctorate in economics from Xiamen University.

SUPERVISORS

The following table sets forth information regarding our supervisors as at the date of this offering circular:

Name	Age	Position
Ai Bo	50	Supervisor
Zhao Lijun	57	Supervisor
Lin Xuan	49	Employee Representative Supervisor
Zhao Ming	49	Employee Representative Supervisor

Ms. Ai Bo (艾波) Ms. Ai, born in February 1971, is a Supervisor of the Company. Ms. Ai has been serving as a Supervisor of the Company since August 2016. Ms. Ai served in the China Investment Corporation since June 2008 and as the secretary of the discipline supervisory committee of China Investment Corporation since June 2020, and the director of Party committee inspection office of China Investment Corporation since June 2020. Ms. Ai worked for the secretariat for confidential matters of the general office of the Ministry of Supervision, the general supervision office of supervision department under the Central Commission for Discipline Inspection and the second discipline inspection office under the Central Commission for Discipline Inspection from July 1991 to May 2008. Ms. Ai obtained a master's degree in Management from Kunming University of Science and Technology in June 2015 and obtained a certificate of certified enterprise risk manager in June 2014.

Ms. Zhao Lijun (趙麗君) Ms. Zhao, born in October 1963, is a Supervisor of the Company. Ms. Zhao has been serving as a Supervisor of the Company since April 2018; the deputy director of working group for party construction/Party committee office/corporate culture department of China Investment Co., Ltd. since August 2019. During such time Ms. Zhao served as deputy secretary of Party committee, secretary of Party committee and managing director since November 2019. Ms. Zhao successively served as a teaching assistant of the academic department, teaching assistant of social science and lecturer of Harbin Ship Engineering Institute from July 1986 to November 1996. She successively served as vice minister of the propaganda department (named as associate professor in September 1997), director of information centre (part-time since January 2001), vice principal of party school and deputy secretary of Party committee (named as professor in September 2004 of Harbin Engineering University) from November 1996 to December 2006; as researcher of National Commission of Science and Technology Policy and

Regulation Division from December 2006 to July 2008; as researcher of Party committee directly under State Administration of Science, Technology and Industry for National Defense, head of Party committee office from July 2008 to March 2010; as senior manager of human resources department, head of management team of party affairs, senior manager of office/board office/Party committee office, and team leader of working group for party construction/Party committee office of China Investment Co., Ltd. from March 2010 to January 2017. During such time Ms. Zhao also served as an external supervisor of Central Huijin Investment Ltd from January 2012 to January 2017 (seconded to China Everbright Industrial (Group) Company Ltd.); and served as deputy director of the office of China Investment Co., Ltd. from January 2017 to August 2019. Ms. Zhao obtained a bachelor's degree in law from the Department of Law of Heilongjiang University in July 1986, a master's degree in law (economics) from Harbin Engineering University in March 2006. Ms. Zhao obtained the PRC bar qualification in September 1989.

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

Mr. Zhao Ming (趙明) Mr. Zhao, born in May 1971, is an employee representative Supervisor of the Company, administrative head of Financial Planning Department and Treasury Operation Department. He has served as the administrative head of Financial Planning Department and Treasury Operation Department of the Company since July 2018; and an employee representative Supervisor since April 2019. Mr. Zhao worked in Daya Bay Public Security Bureau, Huizhou City, Guangdong Province from July 1993 to August 1998. He worked in Investment Banking Department of Huaxia Securities Co., Ltd. from July 2001 to March 2003. He served as manager of Investment Banking Department of Shanghai Electric Group Finance Company Co., Ltd. (上海電氣集團財務有限責任公司) from April 2003 to May 2005; senior business director of Investment Banking Department of Huaxia Securities Co., Ltd. from June 2005 to October 2005; senior business director, director and executive general manager of the Investment Banking Department of the Company from November 2005 to October 2010; vice chairman and general manager of Shanghai Heying Electromechanical Technology Co., Ltd. (上海和鷹機電科技股份有限公司) from May 2011 to October 2013; executive general manager and managing director of the Capital Market Department and Investment Banking Department of the Company from November 2013 to July 2017; and the general manager of Zhong'an Huixin Investment Management Co., Ltd. from September 2017 to December 2020. Mr. Zhao obtained a Bachelor's Degree in law from the People's Public Security University of China in June 1993, a Master of Laws from Southwest University of Political Science and Law in June 2001, a Master of Business Administration from China Europe International Business School in October 2011 and qualified as a lawyer in 1995 and a certified public accountant in 2003.

SENIOR MANAGEMENT

The senior management is responsible for the daily management of our business operation. The following table sets forth information regarding our senior management as at the date of this offering circular:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Wang Changqing	57	Chairman of Executive Committee
Li Geping	53	General Manager, Member of Executive Committee and Chief Financial Officer
Zhou Zhigang	56	Member of Executive Committee
Yuan Jianmin	59	Member of Executive Committee
Jiang Yueqin	54	Member of Executive Committee
Zhou Xiaoyu	56	Member of Executive Committee
Li Yunan	51	Member of Executive Committee
Li Tiesheng	49	Member of Executive Committee
Wang Guangxue	48	Member of Executive Committee and Secretary of the board of directors
Zhang Xinfan	52	Member of Executive Committee
Liu Naisheng	50	Member of Executive Committee
Huang Ling	44	Member of Executive Committee
Ding Jianqiang	47	Member of Executive Committee and Chief Compliance Officer
Lu Ya	55	Member of Executive Committee and Chief Risk Officer
Xiao Gang	51	Member of Executive Committee and Chief Information Officer
Peng Wende	55	Member of Executive Committee

Mr. Wang Changqing (王常青). Please see “Directors, Supervisors and Senior Management – Biographies of Directors and Senior Management – Directors – Mr. Wang Changqing.”

Mr. Li Geping (李格平). Please see “Directors, Supervisors and Senior Management – Biographies of Directors and Senior Management – Directors – Mr. Li Geping.”

Mr. Zhou Zhigang (周志綱) Mr. Zhou, born in May 1964, is a member of Party committee, a member of the Executive Committee of the Company. Mr. Zhou joined our Company in November 2005. He has been a member of Party committee since December 2005 and a member of the Executive Committee since February 2009. Mr. Zhou has been serving as a director of China Securities Futures since August 2006. Mr. Zhou currently also serves as a member of the compliance management committee of the Securities Association of China. Mr. Zhou served as the assistant director of the application software chamber of Institute of Computer Technology of East China from September 1988 to May 1992; the deputy director of computer center, deputy director and director of the research and development center of Shanghai Wanguo Holdings Ltd. From May 1992 to May 1996; the chief engineer and the general manager of the E-commerce department of Huaxia Securities Co., Ltd. from May 1996 to November 2005; deputy general manager and chairman of Brokerage Business Management Committee of the Company from November 2005 to April 2014, the Chief Risk Officer of the Company from April 2016 to April 2019; and the Chief Compliance Officer of the Company from April 2016 to May 2019. Mr. Zhou obtained a Bachelor of Science degree from Fudan University in July 1985 and obtained a Master of Science degree from Fudan University in July 1988. He obtained his MBA degree from CEIBS in April 2001 and a certificate of senior engineer in September 1999.

Mr. Yuan Jianmin (袁建民) Mr. Yuan, born in May 1961, is a member of the Party committee and a member of the Executive Committee of the Company. Mr. Yuan joined our Company in November 2005 and has been serving as a member of Party committee since February 2007 and a member of the Executive Committee since February 2009. Mr. Yuan has been serving as a director of China Securities Futures since August 2006. Mr. Yuan served as the deputy director of the real estate credit department under the construction and finance department of the head office, the deputy director of computer management department of the computing center, a director of the planning and finance division of science department of China Construction Bank Corporation from August 1982 to January 2005; the deputy general manager of Science Development Center of China Jianyin Investment from February 2005 to October 2005; and the deputy general manager, administrative head of the Treasury Operation Department and administrative

head of the Securities and Financing Department of our Company from November 2005 to January 2016. Mr. Yuan obtained a Bachelor's degree in Economics from Liaoning Institute of Finance and Economics in August 1982 and a Master's degree in Economics from Dongbei University of Finance and Economics in November 1999. He obtained a certificate of senior economist in December 1993.

Mr. Jiang Yueqin (蔣月勤) Mr. Jiang, born in December 1966, is a member of the Party committee and a member of the Executive Committee of the Company. Mr. Jiang joined our Company in January 2007 and has been serving as a member of Party committee since December 2007 and a member of the Executive Committee since May 2009. Currently, Mr. Jiang also serves as a vice chairman of the AMAC and a member of the asset management business committee of the Securities Association of China. Mr. Jiang served as a programmer of Shenzhen Shekou Xinxin Software Company from May 1992 to March 1993; the deputy general manager of Shenzhen branch, and general manager of trading department and chief dealer of CITIC Securities Co., Ltd. from March 1993 to December 2001; the general manager of Changsheng Fund Management Co., Ltd. from 2001 to 2006; the assistant to general manager, administrative head of Institutional Business Department and administrative head of Asset Management Department of our Company from January 2007 to January 2016; the chairman of the board of director of China Securities Funds from September 2013 to February 2021. Mr. Jiang obtained a Bachelor of Engineering degree from University of Electronic Science and Technology in the PRC in July 1989 and a Master of Engineering degree from University of Electronic Science and Technology in the PRC in March 1992.

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

Mr. Li Yunan (李宇楠) Mr. Li, born in November 1969, is a member of the Party committee and a member of Executive Committee of the Company. Mr. Li joined our Company in March 2016 and has been serving as a member of the Party committee and Secretary of the Disciplinary Committee since March 2016 and a member of the Executive Committee since March 2020. Mr. Li Yunan served as the column editor of the Journal of the Research Department of the National Defense University from January 1995 to May 2000; the chief staff member of the Appointment and Removal Division of the Personnel and Education Department of China International Trust and Investment Corporation (中國國際信託投資公司) from May 2000 to August 2002; the deputy director of the Appointment and Removal Division of the Personnel and Education Department of China International Trust and Investment Corporation from August 2002 to March 2004; and the senior director of the Appointment and Removal Division of the Personnel and Education Department of CITIC Group Corporation (中國中信集團公司) from March 2004 to September 2011 (During the period: he worked in CITIC Mining Technology Development Co., Ltd. (中信礦業科技發展有限公司) as assistant to the general manager and manager of the personnel department from October 2009 to October 2010), the director of the appointment and removal office of the personnel Education Department of CITIC Group Co., Ltd. from September 2011 to September 2014, an assistant to director of the Personnel Education Department of CITIC Group Co., Ltd. (renamed as Human Resources Department in May 2015), assistant to director of the Organization Department of the Party committee and director of the appointment and removal office from September 2014 to October 2015 and the assistant to director of the supervision department of CITIC Group Co., Ltd. from October 2015 to March 2016. Mr. Li Yunan obtained a Bachelor of Arts Degree in Japanese from the Foreign Languages Institute of the PLA from August 1987 to July 1991 and a Bachelor degree of military science in campaign science from the normal training class of National Defense University from July 1991 to January 1995. Mr. Li obtained the title of a senior economist in October 2020.

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

Mr. Wang Guangxue (王廣學) Mr. Wang, born in June 1972, is a member of the Executive Committee, the Secretary of the Board and the Administrative Head of the Executive Office of the Company. Mr. Wang joined our Company in November 2005 and has been serving as the Administrative Head of the Executive Office of our Company since November 2011. He has been serving as a member of the Executive Committee and the Secretary of the Board since January 2014, and served as the chairman of China Securities Futures since June 2019. Mr. Wang served as a staff of the foreign economic relations department of planning committee of Liyang City, Jiangsu Province (now known as the development and reform commission of Liyang City) from August 1992 to September 1995; the business manager, senior business director and assistant to general manager of the investment banking department of Huaxia Securities co., Ltd. from July 1998 to November 2005; and the assistant to general manager and deputy general manager of the Investment Banking Department of our Company from November 2005 to November 2011. Mr. Wang obtained a Bachelor of Science degree from Qingdao Ocean University (currently known as Ocean University of China) in July 1992 and a Master's degree in Economics from Fudan University in June 1998. He also obtained a Ph.D. in Economics (in-service study) from Fudan University in July 2002. He obtained a certificate of sponsor representative of A Shares in April 2004. Mr. Wang obtained a certificate of senior economist in October 2020.

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

Mr. Liu Naisheng (劉乃生) Mr. Liu, born in February 1971, is a member of the Executive Committee, the Chairman of the Investment Banking Business Management Committee of the Company. Mr. Liu joined our Company in March 2006. He has been serving as a member of the Executive Committee since January 2014 and the Chairman of the Investment Banking Department since January 2021. Mr. Liu has been serving as a member of the Fourth Session and the Fifth Session of Listing Committee of SSE since August 2017; and a member of the Sixth Session of Listed Companies Merger and Reorganisation Vetting Committee of the CSRC from July 2016 to June 2019. Mr. Liu worked in China Xinxing Corporation (Group) from July 1995 to October 1997. He worked in China Science and Technology International Trust and Investment Co., Ltd. from October 1997 to October 2002. He was engaged in investment banking business in China Science and Technology Securities Co., Ltd. from October 2002 to March 2006. He served as the deputy general manager of the Investment Banking Department of our Company from March 2006 to April 2011; and the Administrative Head of the Investment Banking Department of the Company

from April 2011 to September 2018; the Chairman of the Investment Banking Committee of the Company from January 2019 to January 2021. Mr. Liu obtained a Bachelor of Engineering degree from the Beijing Institute of Machinery (currently known as Beijing Information Science & Technology University) in July 1995 and an MBA degree from School of Economics and Management, Tsinghua University in July 2007. He obtained a certificate of sponsor representative of A Shares in February 2005. He was awarded as the “Best Investment Banker of the Year 2012” by Securities Times in May 2013, and the “Best Investment Banker of the Year 2014” by New Fortune in March 2015.

Mr. Huang Ling (黃凌) Mr. Huang, born in October 1976, is a member of the Executive Committee, Chairman of the Institutional Business Committee and Co-Chairman of the Investment Banking Business Management Committee of the Company. Mr. Huang joined our Company in November 2005 and has been serving as a member of the Executive Committee from January 2014, Chairman of the Institutional Business Committee from September 2018, Co-Chairman of the Investment Banking Business Management Committee from January 2021, and Chairman of China Securities Funds. Mr. Huang served as a senior business director of the administration department of Huaxia Securities Co., Ltd. from July 2000 to November 2005; the senior business director and the assistant to general manager of the debt business department of our Company from November 2005 to May 2008; the Administrative Head of the Debt Underwriting Department of the Company from May 2008 to January 2019; and the Co-Director of the Investment Banking Committee of the Company from September 2018 to January 2021. Mr. Huang obtained a Bachelor’s degree in Economics, majoring in International Finance, from China Institute of Finance in June 1998 and a Master’s degree in Economics, majoring in Finance from the Graduate School of the PBOC (currently known as PBC School of Finance, Tsinghua University) in October 2000. He obtained a Ph.D. in Economics majoring in Finance from Hunan University in June 2005. He obtained a certificate of senior economist in November 2007.

Mr. Ding Jianqiang (丁建強) Mr. Ding, born in May 1973, is a member of Executive Committee, Chief Compliance Officer and administrative head of the Legal and Compliance Department of the Company. Mr. Ding joined our Company in November 2005, and has been serving as the administrative head of the Legal and Compliance Department since January 2007; a member of Executive Committee since April 2019; and the Chief Compliance Officer since May 2019. Mr. Ding served as an assistant to the general manager of Legal Affairs Department of Huaxia Securities Co., Ltd. from September 2002 to December 2005, the assistant to the general manager of the Legal and Compliance Department from December 2015 to January 2007, and the Chief Lawyer of the Company from August 2018 to April 2019. Mr. Ding obtained a Bachelor’s Degree in law from China University of Political Science and Law from September 1993 to July 1997, and obtained professional qualification as a lawyer in October 1997.

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

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

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

Board Committees

We have formed four board committees, namely the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee.

Development Strategy Committee

The Development Strategy Committee consists of six directors, namely Mr. Wang Changqing, Mr. Yu Zhongfu, Mr. Li Geping, Ms. Zhu Jia, Mr. Wang Hao and Mr. Lai Guanrong. Mr. Wang Changqing currently serves as the chairman of the committee. The Development Strategy Committee is responsible for researching and forecasting the Company's long-term development strategy and establishing the Company's development strategy plans. The primary duties of the Development Strategy Committee include, but are not limited to, the following:

- understanding and mastering the overall operations of the Company;
- understanding, analysing and mastering the current conditions of international and domestic markets;
- understanding and mastering relevant policies of the State;
- studying the short, medium and long-term development strategies of the Company or the relevant issues;
- providing consultancy advice on the Company's major decisions on long-term development strategy and major investments, reform etc.;
- reviewing and approving research reports on development strategies;
- issuing routine research reports regularly or from time to time; and
- performing such other duties determined by the Board and required by the listing rules or regulatory requirement of the place where the ordinary shares of the Company are listed.

Risk Management Committee

The Risk Management Committee comprises five Directors, namely Mr. Wang Hao, Mr. Li Geping, Ms. Zhang Qin, Mr. Bai Jianjun and Mr. Liu Qiao. Mr. Wang Hao is the current chairman of the Risk Management Committee. The Risk Management Committee shall be mainly responsible to monitor the overall risk management of the Company and control such risks within reasonable limits, so as to ensure that the Company may implement effective risk management plans with respect to various risks in the business related activities of the Company. The primary duties of the Risk Management Committee are as follows:

- to review and advise on the general objectives and basic policies of compliance management and risk management;
- to determine strategic structures and resources for the risk management of the Company, and to ensure that they are compatible with the internal risk management policies of the Company;
- to review and advise on the establishment and duties of the institution for compliance management and risk management;
- to evaluate the risks relating to major decisions to be considered and approved by the Board and the solutions for such major risks, and to provide advice in this regard;
- to define the limits of major risks;
- to supervise, examine and make recommendation to the Board on relevant risk management policies;
- to review and approve the compliance reports and risk evaluation reports required to be considered and approved by the Board, and providing advice in this regard; and
- other duties to be determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed.

Audit Committee

The Audit Committee comprises five Directors, namely Mr. Dai Deming, Mr. Wang Xiaolin, Ms. Zhang Qin, Mr. Po Wai Kwong and Mr. Lai Guanrong. Mr. Dai Deming currently serves as the chairman of the Audit Committee. The Audit Committee is responsible for the compliance control of the operating management and investment business of the Company and the review and supervision of the internal auditing works and results of the Company. The primary duties of the Audit Committee are as follows:

- to supervise the annual audit and make judgment on the truthfulness, accuracy and completeness of the audited information contained in the financial reports before submitting the reports to the Board;
- to propose to engage or dismiss the external auditor of the Company, and to supervise the practice of external auditors;
- to supervise the internal audit system and its implementation;
- to be responsible for the communications between the internal audit and the external audit;
- to review and approve the financial information of the Company and its disclosure;
- to examine the internal control system of the Company; and
- other duties determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises seven Directors, namely Mr. Bai Jianjun, Mr. Wang Changqing, Mr. Yu Zhongfu, Mr. Wang Xiaolin, Mr. Dai Deming, Mr. Liu Qiao and Mr. Po Wai Kwong. Mr. Bai Jianjun currently serves as the chairman of the Remuneration and Nomination Committee. The Remuneration and Nomination Committee is mainly responsible for formulation of the appraisal standards of the Company's Directors and the senior management, as well as conducting appraisal; formulation and examination of remuneration policy and proposal for the Directors and the senior management (including but not limited to performance evaluation standards, procedures and major evaluation systems, major programs and systems of incentives and penalties); researching the selection standard of Directors and the senior management and making suggestions of the candidates. The primary duties of the Remuneration and Nomination Committee are as follows:

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

TAXATION

The following summary of certain British Virgin Islands, Hong Kong, PRC and, EU tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Noteholder or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

BRITISH VIRGIN ISLANDS

Under existing British Virgin Islands laws, payments of interest and principal on the Notes will not be subject to taxation in the British Virgin Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to British Virgin Islands income or corporation tax, provided that the payments are made to persons who are not resident in the British Virgin Islands. No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the British Virgin Islands with respect to the Notes. There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer. If neither the Issuer nor any subsidiary holds an interest in real estate in the British Virgin Islands, no stamp duty is payable in respect of the issue of the Notes and the Certificates or on an instrument of transfer in respect of the Notes or Certificates.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (iii) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (iv) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (v) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “IRO”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (vi) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

- (i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the “SDO”)).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3% of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

- (i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this “*PRC Taxation*” section. In considering whether to invest in the Notes, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “de facto management body” are within the territory of China are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay PRC enterprise income tax at the rate of 25% in respect of their

taxable income. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to PRC enterprise income tax at the rate of 25% on its taxable income. At the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no connection to its establishment inside the PRC must pay enterprise income tax on income sourced within the PRC, and such income tax must be withheld at source by the PRC payer acting as a withholding agent. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer would be required to withhold income tax from the payments of interest or premium (if any) in respect of the Notes to any non-PRC Noteholder, and gain from the disposition of the Notes may be subject to PRC tax, if the income or gain is treated as PRC-source. The tax rate is generally 10% for non-resident enterprise Noteholders and 20% in the case of non-resident individuals. The Issuer has agreed to pay additional amounts to Noteholders, subject to certain exceptions, so that they would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

In addition, as the Guarantor is a PRC resident enterprise, in the event that the Guarantor is required to fulfill its obligations under the Guarantee, the Guarantor will be obliged to withhold PRC enterprise income tax on payments of interest or premium (if any) made by the Guarantor at the tax rates specified above. To the extent that the PRC has entered into arrangements relating to the avoidance of double income taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of PRC income taxes, such lower rate may apply to qualified non-PRC resident enterprise Noteholders or individual Noteholders. However, it is unclear whether in practice non-PRC Noteholders might be able to obtain the benefit of income tax treaties entered into between PRC and their countries. The Issuer or the Guarantor (as the case may be) has agreed to pay additional amounts to Non-PRC Noteholders, subject to certain exceptions, so that Non-PRC Noteholders would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions of the Notes.

According to Circular 36, VAT is applicable where the entities or individuals provide financial services such as providing the loans within the PRC. The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. It is further clarified under Circular 36 that the loans refers to the activity of lending capital for another’s use and receiving the interest income thereon. Based on the definition of loans under Circular 36, the issuance of Notes may be treated as the Noteholders providing the loans to the Issuer, which thus shall be regarded as the financial services for VAT purposes. In the event the Issuer is deemed to be a PRC resident enterprise in the PRC by the PRC tax authorities, the Noteholders may be regarded as providing financial services within the PRC and consequently, the amount of interest payable by the Issuer to any non-resident Noteholders may be subject to withholding VAT at the rate of 6%. In addition, in that case the holders of the Notes shall also be subject to the local levies at approximately 12% of the VAT payment. Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

Subject to certain exceptions, the Issuer and Guarantor will be required to pay additional amounts with respect to any such PRC withholding taxes. The request to pay additional amounts will increase the cost of servicing the Notes and will adversely impact the cash flows of the Issuer and Guarantor. In addition, if any PRC tax is imposed on the disposition of the Notes, an investor’s investment return would be materially and adversely affected.

The proposed financial transactions tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States, and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

FATCA Withholding

Pursuant to certain provisions of U.S. law, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong and the British Virgin Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to foreign passthru payments prior to the date that is two years after the date on which final regulations defining "foreign passthru payments" are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Notes that are characterised as debt (or which are not otherwise treated as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under "*Terms and Conditions of the Notes – Further Issues*") that are not distinguishable from grandfathered Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all the Notes in the series, including grandfathered Notes, as subject to withholding under FATCA. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUMMARY OF RELEVANT PRC AND HONG KONG LAWS AND REGULATIONS

This section summarises the principal laws and regulations in the PRC and Hong Kong which are relevant to our business. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations which are relevant to us.

PRC REGULATIONS

Major Regulatory Authorities and Self-Regulatory Organisations

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

CSRC

The CSRC is the major regulatory authority in the securities and futures industry, which is responsible for the unified supervision and management of the securities and futures markets of the PRC and for maintaining the market order thereof, and to secure their lawful operations in accordance with the laws, regulations and within the authorisation of the State Council. According to the Securities Law of the People's Republic of China (《中華人民共和國證券法》) (effective from 1 March 2020) and the Administrative Regulations on Futures Trading (amended on 28 December 2019, amended on 1 March 2017) (《期貨交易管理條例》), the main duties of the CSRC include: to formulate the regulations and rules in relation to the supervision and regulation of the securities and futures markets and to exercise the rights of examination, approval or verification according to law; to supervise and regulate the issuance, listing, trading, registration, deposit and settlement of securities and other related activities and the listing, trading, settlement and delivery of futures and related activities; to supervise and regulate the securities activities of securities issuers, listed companies, securities companies, securities investment fund management companies, securities service organisations, stock exchanges and securities registration and settlement organisations, as well as futures activities of market participants, including futures exchanges, futures companies, other futures business institutions, non-futures companies clearing member, futures margin security depository management companies, futures margin depository banks, settlement houses and so forth; to legally determine and supervise the qualification standards and codes of conduct of participants engaged in securities and futures businesses; to legally supervise the disclosure of information in relation to the issuance, listing and trading of securities and information on futures trading; to legally guide and supervise the activities of the SAC and the CFA; to investigate activities in violation of laws and administrative regulations in relation to the securities and futures markets; to conduct external and international cooperative transactions in relation to the supervision and management of the securities and futures industries; and to perform other duties stipulated by the relevant laws and administrative regulations.

Stock Exchanges

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

Futures Exchanges

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

SAC

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

CFA

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

AMAC

Pursuant to the relevant provisions of the Law of the People's Republic of China on Securities Investment Fund (《中華人民共和國證券投資基金法》) (the "Securities Investment Fund Law") (amended on 24 April 2015 with immediate effect), AMAC is a self-regulatory organisation of the securities investment fund industry and is a public legal entity. Fund managers and fund custodians shall join AMAC, and fund service organisations may join AMAC. The main duties of AMAC include: to educate and advise its members to comply with the laws and administrative rules governing securities investments and to protect the lawful rights and interests of the investors; to protect the lawful rights and interests of its members and to submit their proposals and requests; to formulate and implement self-regulatory rules, to supervise and investigate the practices of its members and practitioners, and to take disciplinary actions against the violation of the self-regulatory rules and its articles of association in accordance with relevant provisions; to formulate practice standards and business rules and to organise the qualification examinations, qualification management and professional training for fund practitioners; to provide membership service, organise seminars, promote innovation and launch propaganda and investor education activities in the securities industry; to mediate disputes arising from fund business between members or between members and their clients; to handle the registration and filing of non-publicly offered funds in accordance with the law; and to perform other duties stipulated in its articles of association.

Other Industry Organisations

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

Intra-Group Lending

Prior to 1 September 2015, lending and borrowing, overt or in a disguised form, among non-financial institutions was prohibited, according to Article 61 of the General Principles of Loans (《貸款通則》) promulgated by the PBOC in 1996. There was a risk that intra-Group lending may be deemed not in compliance with the General Principles of Loans, and the certain intra-Group loans may be cancelled and the lending party may be imposed a fine equal to one to five times of its income accrued from such loans.

On 6 August 2015, the Supreme People’s Court issued the Regulations on Application of Laws to Certain Issues For Hearing of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (“Regulations”), which became effective on 1 September 2015, amended on 19 August 2020 and on 29 December 2020. Pursuant to the Regulations, subject to certain exceptions, an intra-group lending entered into for production or operating purposes is valid and recognised by the PRC courts. However, the validity of such lending may still be challenged if the lender (not being a financial institution) regularly conducts lending business or its lending activities become its primary business, as such loans would no longer be made for production or business operation purposes.

External Security Regime

Cross-Border Guarantee

On 12 May 2014, the SAFE promulgated the Foreign Exchange of Cross-border Guarantee Measures (《跨境擔保外匯管理規定》). The Foreign Exchange of Cross-border Guarantee Measures, which came into force on 1 June 2014, replaced previous regulations regarding cross-border security and introduced a number of significant changes, including: (i) abolishing prior SAFE approval and quota requirements for cross-border security; (ii) requiring SAFE registration for two specific types of cross-border security; (iii) removing eligibility requirements for providers of cross-border security; (iv) providing that the validity of any cross-border security agreements are no longer subject to SAFE approval, registration, filing, and any other SAFE administrative requirements; and (v) removing the SAFE verification requirement for performance of cross-border security. A cross-border guarantee is a form of security under the Foreign Exchange of Cross-border Guarantee Measures. The Foreign Exchange of Cross-border Guarantee Measures classify cross-border security into three types:

- Nei Bao Wai Dai (NBWD, 內保外貸): security/guarantee provided by an onshore security provider for a debt owed by an offshore debtor to an offshore creditor.
- Wai Bao Nei Dai (WBND, 外保內貸): security/guarantee provided by an offshore security provider for a debt owed by an onshore debtor to an onshore creditor.
- Other Types of Cross-border Security (其他形式跨境擔保): any cross-border security/guarantee other than Nei Bao Wai Dai and Wai Bao Nei Dai.

Under the SAFE Regulations, the local SAFE will go through review of the application for registration. Upon completion of the review, the local SAFE will issue a registration notice or record to the issuer to confirm completion of the registration.

Foreign Debt Laws

SAFE issued the Administrative Measures for Foreign Debt Registration (《外債登記管理辦法》) and its operating guidelines (the “SAFE Measures”) on 28 April 2013, which came into effect on 13 May 2013 and was amended on 26 April 2016 and 9 June 2016. If the Issuer provides the proceeds to the Guarantor or its domestic subsidiaries in the form of debt, according to the SAFE Measures, the debtor shall submit foreign debt registration when borrowing foreign debts in accordance with laws and regulations. For the domestic debtors besides financial institutions and banks (the “Non-Bank Debtors”), they shall submit filing or registration procedures of foreign debts with the local counterparts of the SAFE. According to the Operation Guidelines for Administration of Foreign Debt Registration (《外債登記管理操作指引》) promulgated together with the SAFE Measures, Non-Bank Debtors shall apply for foreign debt registration procedure within fifteen working days after execution of related deeds of foreign debts. In addition, the PBOC issued the PBOC Circular on Full-coverage Macro-prudent Management of Cross-border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) (the “PBOC Circular”) on 12

January 2017 which came into effect on the same date. According to the PBOC Circular, the debtor is also required to file the issue of the notes with SAFE within the timeframe prescribed in the PBOC Circular. If the debtor fails to report or update the cross-border financing information in time, the PBOC and the SAFE may circulate the criticism on the debtor after verification, order a rectification, and impose sanctions according to the Law of the People's Republic of China on Foreign Exchange Control (《中華人民共和國外匯管理條例》).

Regulation on the Issuance of Foreign Notes

Pursuant to the Notice on Promoting the Reform of the Administration of the Registration of Foreign Debt of Enterprises (《國家發展改革委員會關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)), which was promulgated by the NDRC and became effective on 14 September 2015, where domestic enterprises, overseas enterprises controlled by them or their overseas branches issue foreign debts, which are debt instruments of no less than one year of tenor that are denominated in domestic currency or foreign currency with the capital repaid and interest paid as agreed, including notes issued overseas and long and medium-term international commercial loans, the enterprises shall apply to the NDRC for dealing with the formalities of record-filing and registration before issuance. The NDRC shall decide to accept it or not within five working days upon the receipt of the application and provide the Registration Certification of Enterprise Foreign Debt (企業發行外債備案登記證明) within seven working days after acceptance. The enterprises shall submit the issuance information to the NDRC within 10 working days after the issuance each time.

Industry Entry Requirements

Industry Entry Requirements of Securities Companies

Establishment

The Securities Law, explicitly set out the scope of business, industry entry standards, organisations, business rules of securities companies and other requirements for the operations of securities companies. The establishment of a securities company shall be approved by the CSRC and the securities company shall obtain a business license by meeting the following conditions:

- its articles of association shall comply with the laws and administrative regulations;
- its major shareholders and the actual controller of the company shall have good financial status and creditworthiness records and no record of major violation of laws or regulations in the last three years;
- it shall have the necessary registered capital required by the Securities Law; for a securities company operating securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, the minimum registered capital shall be RMB50 million; for companies operating one of the areas at securities underwriting and sponsorship, securities financing and securities lending, securities market making, proprietary securities trading, or other securities businesses, the minimum registered capital shall be RMB100 million; for companies operating two or more of the areas at securities underwriting and sponsorship, securities financing and securities lending, securities market making, proprietary securities trading or other securities businesses, the minimum registered capital shall be RMB500 million. The registered capital of a securities company shall be paid-in capital;
- its directors, supervisors, senior management and business employees shall comply with conditions specified in the Securities Law; and
- it shall have effective risk management and internal control systems; it shall have proper premises and facilities for operation; and it shall fulfil other conditions stipulated by laws, administrative rules and the CSRC.

According to the Administrative Provisions on Equities of Securities Companies (《證券公司股權管理規定》) (effective from 5 July 2019 and amended on 18 March 2021 and effective from 18 April 2021), the CSRC shall examine and approve its registered capital and equity structure at the time of establishment of a securities company, and various types of stakeholders of the securities companies shall satisfy the relevant criteria.

According to the Administrative Measures on Foreign-funded Securities Companies (《外商投資證券公司管理辦法》) promulgated by the CSRC (effective from 28 April 2018 and amended on 20 March 2020) which stipulates the conditions and procedures for the formation of foreign-invested securities companies, foreign investors who lawfully hold 5% or more of the shares in a listed domestically funded securities company through securities trading on a stock exchange or who jointly hold 5% or more of the shares in a listed domestically funded securities company with others by agreement or other arrangements shall comply with the Securities Law and the relevant provisions of the CSRC on examination and approval for acquisition of a listed company and change in securities company.

Establishment of a foreign-funded securities company shall, in addition to compliance with the Company Law, the Securities Law, the Administrative Regulations on Supervision and Administration of Securities Companies and the criteria for establishment of securities company stipulated by the CSRC with approval by the State Council, satisfy the following criteria:

- the overseas shareholder(s) satisfy(ies) the qualification criteria stipulated in Administrative Measures on Foreign-funded Securities Companies, and its/their capital contribution ratio and capital contribution method comply with the relevant provisions of these Measures;
- the preliminary scope of business is compatible with the securities business experience of the controlling shareholder or the largest shareholder; and
- any other prudential criteria stipulated by the CSRC.

The following conditions shall be met for a foreign shareholder of a foreign-invested securities company:

- the country or region in which the foreign shareholder is based has complete securities laws and regulation system, of which the relevant financial regulatory authorities have entered into a memorandum of understanding with the CSRC or institutions recognised by the CSRC in respect of securities regulation cooperation, and the regulation cooperation relationship has been maintained in an effective way;
- the shareholder is a financial institution legally incorporated in the country or region in which it is based, and the respective financial indicators of the shareholder for the last three years satisfy the requirements of the national or regional laws and of the regulatory authorities in that country or region;
- the shareholder is engaged in securities business for over five years, receives no material punishment during the last three years from the regulatory authorities, administrative or legal authorities of the country or region in which it is based, and not being investigated by relevant authorities due to involvement in material violation of laws and regulations;
- the shareholder has well-established internal control system;
- the shareholder enjoys good international reputation and operating results, with its business scale, revenue and profit for the last three years ranking in advanced position in international market and with its long-term credit for the last three years maintained at a high level; and
- other prudent requirements stipulated by the CSRC.

According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (Edition 2019) (《外商投資准入特別管理措施(負面清單)(2019年版)》) (effective from 30 July 2019) (the “Negative List (Edition 2019)”), the proportion of foreign capital invested in a securities company shall be less than 51%; the proportion of foreign capital invested in a securities investment fund management company shall be less than 51%. Such limits on the foreign shareholding proportion have been removed in the Special Administrative Measures for Access of Foreign Investment (Negative List) (Edition 2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》), which came into effect on 23 July 2020 and replace the Negative List (Edition 2019). According to the Measures for Foreign Investment Information Reporting (《外商投資信息報告辦法》) (effective from 1 January 2020), where foreign investors carry out investment activities in Mainland China directly or indirectly, the foreign investors or foreign investment enterprises shall submit investment information to competent commerce departments in accordance with these Measures.

In addition, according to the provisions of 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》) (promulgated on 27 August 2015), if an enterprise that is directly or indirectly owned by a foreign investor invests in a securities company, the equity interest of the foreign investor in the securities company, based on the effective equity holding, shall not be more than 5%. The indirect equity interests of a foreign investor in a securities company shall be exempted from such restriction if all the following conditions are satisfied:

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

Business scope

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

According to the provisions of the Regulations on the Examination and Approval of the Scope of Business of Securities Companies (Provisional) (《證券公司業務範圍審批暫行規定》) (effective from 1 December 2008 and recently amended on 30 October 2020), securities companies under common control of an entity or individual or securities companies with control relationship shall not engage in the same business, unless effective measures are in place for division of operation regions or client bases and there is no competition between the companies. Unless otherwise specified by the CSRC, the scope of business of a securities company shall be approved by the CSRC upon its establishment in accordance with the statutory requirements, and no more than four types of new businesses shall be approved. A securities company shall obtain approval from the CSRC for any change in its scope of business. Changing business scope includes increasing business types and reducing business types. No more than two additional types of business can be applied for increasing business types at once. Subject to approval by the CSRC, a securities company may operate businesses not prohibited by the Securities Law, the Regulations on Supervision and Administration of Securities Companies and the rules and regulations and normative documents of the CSRC.

Material changes

According to the provisions of the Securities Law, a securities company shall obtain approval from the CSRC if it has any of the following acts:

- change of the scope of business;
- change of major shareholder(s) or actual controller; or
- merger, division, change of incorporation, cessation, dissolution and bankruptcy.

According to the Administrative Provisions on Equities of Securities Companies (《證券公司股權管理規定》) (effective from 5 July 2019 and amended on 18 March 2021 and effective from 18 April 2021), when there is a change in shareholders holding 5% or more of its equity or a change of actual controlling party, the securities company shall apply to the CSRC for approval pursuant to the law. Where the percentage of equity of the securities company actually controlled by a controlling shareholder or actual controlling party of the securities company increases to 100%, the securities company shall file for record with the CSRC within five working days from the date when the company registration authority handles the change registration (or from the date of confirmation and registration of rights if the company change registration is not required according to law). Where the change in registered capital, equity of a securities company or the actual controlling party holding more than 5% of its equity does not fall under the circumstances set out in the preceding statement, the securities companies shall complete change registration formalities with the company registration authority (or the confirmation and registration of rights if, according to the law, the company change registration is not required) within five working days and file records with the CSRC branch at its locality. This provision shall not apply to the public offering of shares by securities companies and equity changes of securities companies which occur on a stock exchange or the NEEQ.

According to the Announcement of the China Securities Regulatory Commission on Abolishing or Adjusting Certain Administrative Examination and Approval Items for Securities Companies (《關於取消或調整證券公司部分行政審批項目等事項的公告》) (the “Announcement [2020] No. 18 of CSRC”), issued by the CSRC and effective on 1 March 2020 and came into effect on 3 March 2020, the CSRC cancelled or adjusted the approval for six matters according to the Securities Law, including: establishment, acquisition or de-registration of a branch of a securities company; qualifications of directors, supervisors and senior managers of securities companies; the establishment, acquisition or equity participation in securities institutions overseas by securities companies; registration of sponsor institutions; providing securities financing and securities lending services; increasing of the registered capital by the securities company and major adjustment to its equity structure, reduction of the registered capital by the securities company, change of its shareholders holding 5% or more of the shares or its actual controller by the securities companies and modification of the key clauses of articles of association by the securities companies.

Establishment of subsidiaries, branches and securities business units

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

Pursuant to the provisions of the Regulatory Requirements on Branches of Securities Companies (《證券公司分支機構監管規定》) (effective from 15 March 2013 and 30 October 2020), branches of a securities company refer to branches and securities business units established by such securities company in the PRC for business operation. The establishment, acquisition and de-registration of branches of securities companies are subject to filing with securities regulatory authorities at the local place of the branch. Securities companies shall meet the following requirements in order to establish or acquire branches: having a sound governance structure and effective internal management and being able to control the risks of their existing branches and the branches to be established; having risk control indicators in compliance with relevant rules for the previous year and those indicators remaining in compliance after the additional branches are established; having not received any administrative or criminal penalties for any material breach of rules or regulations for the past two years and having not had any material regulatory measures imposed on them for the previous year, and not being subject to any investigation for any branch-related activities based on any alleged material breach of rules or regulations; having a secure and stable information technology system and no material information technology incident having occurred during the previous year; and other prudent requirements stipulated by the CSRC.

Entry Requirements for Futures Companies

Establishment

According to the Administrative Regulations on Futures Trading (《期貨交易管理條例》) and the Administrative Regulations on Futures Trading and the Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) (effective from 29 October 2014, subsequently amended on 7 December 2017 and 4 June 2019), the establishment of futures companies shall be approved by the CSRC, subject to the following conditions:

- the minimum registered capital shall be RMB100 million;
- directors, supervisors and senior management shall be qualified for their positions, while practitioners shall have futures practice qualifications;
- the number of staff with futures practice qualifications shall not be less than 15, and the number of senior management staff with practice qualifications shall not be less than three;
- the articles of association of the company shall comply with the requirements of laws and administrative regulations;
- major shareholders and the de facto controller shall have sustainable profitability, good reputation, and shall not have a record of material violation of laws or regulations in the past three years;
- premises and operation facilities shall be in compliance with requirements;
- sound risk management and internal control systems; and
- other conditions as stipulated by the CSRC.

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

Material changes

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

According to the Negative List (Edition 2019), the proportion of foreign capital invested in a futures company shall be less than 51%. According to the Measures for Further Opening Up the Financial Sector (《關於進一步擴大金融業對外開放的有關舉措》) promulgated by the State Council's Financial Stability and Development Committee on 20 July 2019, this limit on the foreign shareholding proportion with respect to futures companies will be removed in 2020.

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

In accordance with the State Council Decisions on the Cancellation and Adjustment of Various Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (issued on 24 February 2015 with immediate effect), the appointment of directors, supervisors and senior management of futures companies is no longer subject to qualifications approval of a local branch of the CSRC.

Regulation of operations of Securities Companies

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

Securities Brokerage

According to the provisions of the Regulations on Supervision (《證券公司監督管理條例》) (effective from 1 June 2008 and amended on 29 July 2014) and Administration of Securities Companies and the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》) (effective from 1 May 2010), a securities company engaging in securities brokerage business shall be in compliance with the following regulations:

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

Futures Brokerage

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

Futures Intermediary Business

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

Distribution of Financial Products

According to the Administrative Provisions on the Distribution of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》) (effective from 12 November 2012 and amended on 20 March 2020), a securities company engaging in the distribution of financial products shall obtain relevant qualifications to carry out the distribution of financial products. Its personnel engaging in the distribution of financial products shall meet the prescribed conditions and comply with the provisions on the administration of securities practitioners. A securities company shall centralise the regulation of distribution of financial products and assess the eligibility of the client. The information given on the financial products shall be comprehensive, fair and accurate. A securities company is also required to set up a client feedback system.

Sales of Securities Investment Funds

According to the provisions of the Management Measures on Sales of Publicly-offered Securities Investment Funds (《公開募集證券投資基金銷售管理辦法》) (effective from 1 October 2020), a securities company shall register with the local office of the CSRC where the company operates and apply for a “Securities and Futures Business Operation Permit” before engaging in the sale of securities investment funds. A securities company shall establish a specialised funds sales department, and staff participating in the sale of securities investment funds shall be qualified to carry out such activities. It shall set up a comprehensive management system for fund holder accounts and capital accounts, an optimal system of procedures and authorisation for fund holders in relation to fund depository and withdrawal, and a monitoring system for fund distribution.

Securities Investment Consultation

According to the provisions of the Provisional Measures on Management of Investment Consultations on Securities and Futures (《證券、期貨投資諮詢管理暫行辦法》) (effective from 1 April 1998), a company which engages in securities investment consultation business shall obtain the required qualifications and a business license from the CSRC; practitioners of securities investment consultation shall obtain the relevant securities investment consultation qualifications and work under a qualified securities investment consulting institution before engagement in securities investment consultation business.

According to the Regulations on the Securities Investment Advisor Business (Provisional) (《證券投資顧問業務暫行規定》) (effective from 1 January 2011 and recently amended on 30 October 2020), a securities company and its investment advisors shall provide securities investment advisory service in good faith and shall not jeopardise the interests of clients by acting in favor of the securities company and its associates, investment advisors and their related parties, or other particular clients.

The Provisions on the Release of Securities Research Reports (Provisional) (《發佈證券研究報告暫行規定》) (effective from 1 January 2011 and amended on 20 March 2020) stipulate that the publishing of securities research reports by securities companies and securities investment advisory agencies shall abide by laws, administrative regulations and other relevant requirements, follow the principles of independence, objectiveness, fairness and prudence, effectively prevent conflicts of interest, and treat objects under issuance in a fair manner. They shall also be prohibited from disseminating false, untrue and misleading information and from engaging in or participating in insider trading or securities market manipulation.

Margin Financing and Securities Lending

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

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

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

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

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

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

Collateralised Stock Repurchase

According to the Measures on Collateralised Stock Repurchase and Registration and Settlement Business (《股票質押式回購交易及登記結算業務辦法》) (effective from 30 June 2017, and amended in 2018) promulgated jointly by CSDC and the Shanghai Stock Exchange and the Shenzhen Stock Exchange as amended and in effect as at 12 March 2018, respectively, the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall implement the trading permissions management of securities companies that participate in collateralised stock repurchase. Securities companies shall establish client qualification examination systems and perform due diligence with respect to their clients. Examination contents shall include identity, financial status, business status, credit status, guarantee status, usage of funds, risk tolerance and cognition of the securities market. Securities companies shall provide to their clients a comprehensive introduction of the business rules and a full disclosure of the risks, and shall require the clients to sign the risk disclosure statement.

Securities Repurchase

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

Secondary Offering Business

Pursuant to the provisions of the Trial Measures on Supervision and Administration of the Secondary Offering Business (《轉融通業務監督管理試行辦法》) (implemented on 26 October 2011 and recently amended on 30 October 2020), a secondary offering business refers to a business in which a securities finance company lends its funds or securities owned by itself or legally raised and its securities to a securities company for conducting margin financing and securities lending activities. To conduct a secondary offering business, a securities finance company shall, in its own name, open a securities account, a guaranteed securities account and a securities settlement account specific for a secondary offering business with the securities registration and settlement authority. A securities finance company shall also set up a client credit assessment mechanism to evaluate the credit of securities companies and determine and adjust the credit line based on the evaluation. Furthermore, a securities finance company shall charge deposits at a certain rate from securities companies for the secondary offering business.

Proprietary Securities Trading

Provisions of the Regulations on Supervision and Management of Securities Companies and the Guidelines on Proprietary Business of Securities Companies (《證券公司證券自營業務指引》) (effective from 23 November 2005) and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) (effective from 29 July 2014) stipulate that securities companies engaged in proprietary securities trading shall be limited to the trading of publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authorities of the State Council. A securities company engaged in a proprietary securities trading business shall be registered under the name of the proprietary securities account holder. Risk control indicators, such as the proportion of the total value of proprietary securities to the net capital of the securities company, the proportion of the value of a single security to the net capital of the securities company, and the proportion of the amount of a single security to the total amount of issued securities, shall each comply with the regulations of the CSRC.

According to the List of Securities Investment Products for the Proprietary Business of Securities Companies (《證券公司證券自營投資品種清單》), which is the Appendix to Regulations on Investment Scopes of Proprietary Business of Securities Companies and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》) (effective from 1 June 2011 and amended on 16 November 2012 and 20 March 2020), securities companies engaged in proprietary securities trading business are permitted to invest in the following securities:

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

Securities Asset Management

According to the Administrative Measures on Private Offering Asset Management Business of Securities and Futures Business Organisations (《證券期貨經營機構私募資產管理業務管理辦法》), which be implemented with effect from 22 October 2018, and the Circular on Strengthening Supervision on Asset Management Business of Securities Companies (《關於加強證券公司資產管理業務監管的通知》) (effective from 14 March 2013), securities and futures business organisation engaging in private offering asset management business shall be subject to approval by the CSRC pursuant to the law, unless otherwise stipulated by laws, administrative regulations and the CSRC. Securities companies may set up a single asset management plan for a single investor, or set up a collective asset management plan for multiple investors. The number of investors of a collective asset management plan shall not be less than two, and shall not exceed 200.

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

Pursuant to the Interim Provisions on Operation and Management of Private Asset Management Business of Securities and Futures Operation Institutions (《證券期貨經營機構私募資產管理業務運作管理暫行規定》) (promulgated on 14 July 2016 with effect from 18 July 2016), securities companies (i) shall neither sell asset management plans in breach of rules, nor engage in such acts as inappropriate publicity, misleading or deceiving investors, or in any means guaranteeing to the investors that their principal will not suffer any loss or promising a minimum return, (ii) shall establish a structured asset management plan and shall not violate the principle of “sharing of interests and risks and matching risks with returns”, (iii) shall not entrust any individual or unqualified third party with the provisions of investment advice, and managers shall not be exempted from legal liability on the grounds of such entrustment, and (iv) shall not engage in or participate in private asset management business with a “cash-pooling feature”.

Management of Publicly Offered Securities Investment Funds

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

- it has over three years' management experience in securities assets, with good performance in securities products during the past three years;
- it shall have comprehensive corporate governance, sound internal control and effective risk management;
- its operations shall have been in good condition during the past three years, with robust finance;
- it shall act honestly and in compliance with relevant requirements, without any material breach of laws and regulations as filed by regulatory authorities during the past three years, and shall not be subject to any current investigation or rectification for any material breach of laws and regulations;
- it is a member of the AMAC;
- its total AUM shall not be less than RMB20 billion or its AUM or CAM business shall not be less than RMB2 billion;
- during the past 12 months, every risk control indicator has met the specified criteria continuously; and
- it shall meet other requirements of the CSRC.

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

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

The Administrative Measures on Operations of Publicly Offered Securities Investment Funds (《公開募集證券投資基金運作管理辦法》) which came into effect on 8 August 2014 has set out provisions on public fund offering, the subscription, redemption and trading of fund units, the investment of fund assets, the distribution of fund earnings, the convening of meetings of unitholders, and other fund operational activities.

The Administrative Measures on Information Disclosure for Publicly Offered Securities Investment Funds (《公開募集證券投資基金信息披露管理辦法》) (which came into effect on 1 September 2019 and was amended on 20 March 2020) regulates the category of the information that the fund information disclosure obligors of a publicly offered fund should disclose, and the format, media, methods and timeliness requirements thereto.

The Guidelines on the Side-pocket Mechanism of Publicly Offered Securities Investment Funds (trial version) (《公開募集證券投資基金側袋機制指引(試行)》), which will come into effect on 1 August, 2020, regulates side-pocket mechanism for publicly offered securities investment funds, for the purpose to effectively isolate and resolve risks and ensure that investors are treated fairly.

Private Equity Fund Business

Pursuant to the Provisions of Management Practices for Private Equity Fund Subsidiaries of Securities Companies (《證券公司私募投資基金子公司管理規範》) (as promulgated on 30 December 2016 with immediate effect) issued by the SAC, securities companies which engage in private equity fund business shall establish a private equity fund subsidiary in accordance with the requirements of the relevant regulatory authorities. If a private equity fund subsidiary needs special purpose vehicles (“SPVs”) for purposes such as fund management, it shall hold 35% or more equity interests or capital investment in, and have management control in, such SPV; a fund management SPV established under the private equity fund subsidiary shall only manage the private equity funds for which the fund management SPV was established. Business of each affiliated SPV shall be explicit and non-repetitive.

The private equity fund subsidiary and the fund management SPVs under it shall invest their own funds in the private equity fund established by the fund management SPV. The amount of investment in respect of each of the funds shall not exceed 20% of the total amount of such fund.

Alternative Investment

According to the Regulations on Investment Scopes of Securities Investment and Trading Business of Securities Companies and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》) and the Management Criteria for Alternate Investment Subsidiaries of a Securities Firm (《證券公司另類投資子公司管理規範》) (promulgated on 30 December 2016 with immediate effect) securities companies may establish alternative investment subsidiaries to engage in investment on financial products which are excluded on the List of Securities Investment Products for the Securities Investment and Trading of Securities Companies (《證券公司證券自營投資品種清單》). Alternative subsidiaries shall not engage in businesses other than investment businesses; securities companies shall explicitly separate the business scopes of alternative subsidiaries and other subsidiaries to avoid conflicts of interests and transfer of benefits; alternative subsidiaries shall not be financed, shall not provide guarantees and loans, and shall not act as a contributory which bears joint liability of an investee enterprise.

Securities Underwriting and Sponsorship

According to the regulations of the Administrative Measures for the Sponsorship of the Offering and Listing of Securities (《證券發行上市保薦業務管理辦法》) (effective from 12 June 2020), securities companies shall apply for the sponsoring institution qualification from the CSRC to sponsor the offering and listing business of securities. Issuers shall employ securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters: initial public offerings, issuance of new shares or convertible corporate notes by listing companies, public issuance of depository receipts, and other conditions identified by the CSRC.

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

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

- it has not been subject to any administrative penalties for any material breach of laws and regulations during the past three years; and
- it shall meet other requirements of the CSRC.

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

According to the Administrative Measures for the Issuance and Trading of Corporate Notes (《公司債券發行與交易管理辦法》) (effective from 15 January 2015 and amended on 26 February 2021), the issuance of corporate notes shall be underwritten by securities companies with qualification to engage in securities underwriting business. When underwriting corporate notes, underwriters shall be in compliance with the Administrative Measures for the Issuance and Trading of Corporate Notes (《公司債券發行與交易管理辦法》) and applicable regulations on due diligence, risk control and internal control issued by the CSRC and the SAC, to formulate a strict risk management system, and to internal control system and enhance pricing and placing management.

Lead Brokerage in the National Equities Exchanges and Quotations

According to the Administrative Measures on National Equities Exchange and Quotations Company Limited (Provisional) (《全國中小企業股份轉讓系統有限責任公司管理暫行辦法》) (effective from 31 January 2013 and amended on 7 December 2017), securities companies may act as lead broker in the NEEQ. The lead brokerage business includes recommending the listing of shares of joint stock companies, continuously supervising listed companies, trading shares of joint stock companies on behalf of investors, providing market-making service for the transfer of shares, and other businesses as specified by the National Equities Exchange and Quotations Company Limited.

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

Over-the-Counter Market Business

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

Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Companies

Corporate governance

Securities companies shall comply with the corporate governance requirements regarding the composition, operation, convening and voting procedures of shareholders' meetings, the board of directors and the supervisory committee as set out in the Company Law, the Securities Law, the Regulations on Supervision and Management of Securities 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》) (effective from 1 January 2013 and amended on 20 March 2020) and the Guidelines on the Internal Control of Securities Companies (《證券公司內部控制指引》) (effective from 15 December 2003).

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

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

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

According to the Securities Law and Announcement [2020] No. 18 of CSRC, the CSRC cancelled qualification approvals of directors, supervisors and senior managers of securities companies.

Risk control

Pursuant to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) (effective from 20 March 2020), a securities company shall calculate risk control indicators such as its net capital, risk coverage ratio, capital leverage, liquidity coverage ratio and net stable funding ratios and prepare the calculation sheets of net capital, risk capital reserves, total on-balance sheet and off-balance sheet assets, liquidity coverage rate, net stable funding rate and risk control indicators in accordance with relevant provisions and in compliance with the principle of prudence and the principle of substance over form. The Administrative Measures for Risk Control Indicators of Securities Companies stipulates a warning standard and a minimum regulatory standard for risk control indicators that securities companies are required to comply with. The CSRC may make adjustments to the standards for risk control indicators, calculation requirements and the ratio of risk capital reserves of a particular business according to the governance structure, the internal control level and the status quo of risk control of the securities companies.

On 1 October 2016, CSRC promulgated the Provisions on the Calculation Standard for Risk Control Indicators of Securities Companies (《證券公司風險控制指標計算標準規定》), which was amended on 23 January 2020 and came into effect on 1 June 2020 and provides different basis of calculation for different risk capital reserves of securities companies based on their different businesses and types of securities companies.

Pursuant to the Norms for the Comprehensive Risk Management of Securities Companies (《證券公司全面風險管理規範》) (promulgated on 30 December 2016 with immediate effect), securities companies shall implement comprehensive risk management to avoid risks such as liquidity risks, market risks, credit risks, operation risks and reputation risks in business operation, shall establish and improve a comprehensive risk management system that is in line with their development strategies, including feasible management systems, a sound organisational framework, a reliable information technology system, a quantitative risk indicators system, a team of professionals and an effective risk response mechanism and shall evaluate regularly the comprehensive risk management system and improve risk management promptly based on the evaluation results.

Pursuant to the provisions of the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》) (effective from 30 December 2016), securities companies shall strengthen liquidity risk management and establish a sound liquidity risk management system for effective identification, measurement, monitoring and control of liquidity risks.

Pursuant to the provisions of the Regulations on Risk Settlement of Securities Companies (《證券公司風險處置條例》) (effective from 6 February 2016), the securities regulatory authorities of the State Council shall organise, coordinate and supervise the risk settlement of securities companies. In the event that risk control indicators do not meet relevant requirements or there are situations that may impact sustainable business operation or any major risk is found, the securities regulatory authorities of the State Council may take risk settlement measures such as rectification, custody, takeover, administrative restructuring, revocation, bankruptcy, liquidation and reorganisation, etc.

Pursuant to the Measures for the Compliance Management of Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司合規管理辦法》) (effective from 1 October 2017 and amended on 20 March 2020), the compliance management of securities companies shall cover all businesses, departments, branches, subsidiaries at all levels and all staff, and shall be carried out throughout various stages such as decision-making, implementation, supervision and feedback. The securities company shall have a compliance director, who shall, as a senior manager, directly report to the board of directors and examine, supervise and inspect the operation compliance and management activities of the securities company as well as the staff's practices.

Classified regulation

Pursuant to the provisions of the Regulations on Classification of Securities Companies (《證券公司分類監管規定》) (amended on 14 May 2010, 6 July 2017 and 10 July 2020), the CSRC classifies securities companies into five types and eleven categories, as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk control capability, continuous compliance and business development of securities companies for prudent regulation purpose. "The regulatory points" system is one of the systems adopted by the CSRC to assess the continuous compliance of securities companies: certain incidents leading to the imposition of penalties will result in the CSRC deducting the corresponding amount of "regulatory points", which may ultimately have negative effects on the securities companies' regulatory rating. However, when determining the regulatory rating of a securities company, the CSRC will not only consider the deduction in regulatory points but will also take into consideration its risk management capability (mainly assessed on the basis of the securities companies' capital adequacy, corporate governance and continuous compliance management, comprehensive risk control, the safety of its IT system, and protection of clients' interests and information disclosure), continuous compliance (evaluated based on the criminal punishment measures taken by the judiciary, the administrative punishment measures, administrative supervision measures taken by the CSRC and its agencies and disciplinary punishment, self-discipline management measures taken by the securities and futures industry self-discipline organization) and business development (such as brokerage business, investment banking business, asset management business, comprehensive strength and innovation capacity) and assess the condition of the securities companies as a whole.

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

Corporate Governance and Risk Control of Futures Companies

Corporate governance

The provisions of the Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) (effective from 6 June 2019) stipulate that the CSRC implements management system on the qualifications of directors, supervisors, senior management and other futures practitioners of futures companies. The business, personnel, assets, and finance of a futures company shall be strictly separated from those of its controlling shareholders and de facto controller, and they should have independent operations and accounting; a futures company shall have a board of supervisors or supervisors, and shall appoint a chief risk officer, etc.

The Management Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職管理辦法》) further strengthens the management of qualifications of the directors, supervisors and senior management of futures companies.

Risk control

According to the Supervision and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), the Administrative Measures on Futures Trading (《期貨交易管理條例》), and the Administrative Measures for Risk Monitoring Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) (promulgated on 18 April 2017), futures companies shall establish effective operations systems and procedures related to risk management, internal control and futures margin depository so as to effectively isolate risks among different business as well as to ensure the safety of clients' assets and transactions. A futures company engaging in futures brokerage and other futures business at the same time shall strictly implement the systems for the separation of business and capital, while mixed operations are prohibited. Futures companies shall maintain a chief risk officer responsible for monitoring and inspecting compliance and risk management in its operation and management. The CSRC may dynamically adjust the standard of futures companies' risk management indicators and its calculation requirements based on industry opinions, together with consideration of the development of the futures market and futures industry with respect to the principle of prudent supervision.

Classified regulation

Pursuant to the provisions of the Regulations on Classification of Futures Companies (《期貨公司分類監管規定》) (effective from 12 April 2011 and amended on 15 February 2019), the CSRC classifies futures companies into five types and eleven categories, as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk management capability, the capability of serving the real economy, market competitiveness and continuous compliance of futures companies for prudent regulation purposes. According to the principle of classified regulation, the CSRC sets up various standards on margin proportions of futures investors for different types of futures companies and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections, and stipulates different risk capital provision computation ratios for different types of futures companies.

Corporate Governance and Risk Control of Asset Management Company

Corporate governance

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

Risk control

In accordance with provisions of the Administrative Measures on Private Offering Asset Management Business of Securities and Futures Business Organisations (《證券期貨經營機構私募資產管理業務管理辦法》) (effective from 22 October 2018), securities companies shall comply with prudent operation rules, formulate scientific and reasonable investment strategies and risk management system, effectively prevent and control risks, and ensure that their business matches their capital, management capacity and risk control level, and shall implement centralised operation management, establish and improve upon internal control and compliance management system, adopt effective measures, manage private offering asset management business and other businesses separately, control improper flow and use of sensitive information, and prevent insider trading, use of undisclosed information for trading, conflict of interest and profit tunneling.

Pursuant to Regulations on the Operation and Management of Private Asset Management Plans for Securities and Futures Operators (《證券期貨經營機構私募資產管理計劃運作管理規定》) (effective from 22 October 2018), a securities and futures operator shall prepare an investment description when raising funds under an asset management scheme. The risk disclosure shall have targeted content and a clear, definite and understandable statement, and fully disclose various risks, such as the market risk, credit risk, liquidity risk, operational risk, related-party transaction risk and specific risk in regard to the employment of investment consultants in an eye-catching manner.

Corporate Governance and Risk Control of Sponsoring Institution

Corporate governance

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

Risk control

According to provisions of the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (《證券發行上市保薦業務管理辦法》) (effective from 14 June 2009 and amended on 7 December 2017 and 12 June 2020), a sponsoring institution shall establish a sound internal control system for sponsorship and establish as well as improve the due diligence system, guidance system, internal auditing system for documents of application, system of continuing supervision over the issuer after the listing of securities, continuing training system for sponsor representatives and sponsorship-related personnel as well as a system for work paper, and maintain separate work papers for sponsorship work related to each project.

Corporate Governance and Risk Control of Private Equity Subsidiaries

Corporate governance

Pursuant to provisions of the Regulations for Private Equity Fund Subsidiaries of Securities Companies (《證券公司私募投資基金子公司管理規範》), securities companies shall strengthen employees management and avoid moral risks. Employees of securities companies shall not serve as directors, supervisors, senior management members or investment practitioners members concurrently for a private equity fund subsidiary and its SPV affiliates if conflicts of employees between private equity fund subsidiaries, securities companies and other subsidiaries arise. For employees taking up the above duties concurrently, securities companies shall establish a strict and effective internal control mechanism to avoid conflicts of interests and moral risks arising. Securities companies, private equity subsidiaries and their SPV affiliates, private equity funds and other subsidiaries of securities companies shall establish an effective information isolation mechanism, strengthen the isolation, monitoring and management of sensitive information and prevent dissemination and improper use of sensitive information between each business, so as to prevent insider trading and the risk of benefit transfer.

Risk control

Pursuant to provisions of the Regulations for Private Equity Fund Subsidiaries of Securities Companies (《證券公司私募投資基金子公司管理規範》), securities companies should integrate subsidiaries' compliance and risk management into the security companies' comprehensive risk management system, in order to avoid private equity fund subsidiaries related risks such as compliance risks, liquidity risks, market risks, credit risks and operation risks.

Other Regulations

Foreign Exchange Control

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

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

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

According to the Foreign Exchange Management Regulations and the Circular of the State Administration of Foreign Exchange on Distributing the Administrative Measures for Registration of Foreign Debts (《國家外匯管理局關於發佈〈外債登記管理辦法〉的通知》) (promulgated on 28 April 2013), the state exercises scale management on administering foreign debts. Foreign currency borrowings shall be handled in accordance with relevant requirements of the state and registered as foreign debts with the relevant foreign exchange administrative authority.

On 9 June 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the "SAFE Circular 16"). The SAFE Circular 16 unifies the Discretionary Foreign Exchange Settlement for all the domestic institutions. The Discretionary Foreign Exchange Settlement refers to foreign exchange capital in the capital account which has been confirmed by the relevant policies subject to the Discretionary Foreign Exchange Settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretionary Foreign Exchange Settlement of foreign exchange capital is temporarily determined as 100%.

Furthermore, SAFE Circular 16 stipulates that the use of foreign exchange incomes of capital accounts by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. Foreign exchange incomes of capital accounts and capital in Renminbi obtained by foreign-invested enterprises from foreign exchange settlement shall not be used for the following purposes:

- directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;
- directly or indirectly used for investment in securities or financial schemes other than bank-guaranteed products unless otherwise provided by relevant laws and regulations;
- used for granting loans to non-connected enterprises, unless otherwise permitted by its business scope; and
- used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

Issuance of Foreign Debts

Pursuant to the Notice on Promoting the Reform of the Administration of the Registration of Foreign Debt of Enterprises (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》) (effective from 14 September 2015), the quota review and approval for issuance of foreign debts by enterprises have been removed, the management of foreign debts have been reformed, and the administration of record-filing and registration have been implemented. Before the issuance of foreign debts, enterprises shall first apply to the NDRC for handling of record-filing and registration procedures and shall report the information on the issuance to the NDRC within 10 working days of completion of each issuance. Enterprises issuing foreign debts shall meet the requirements of maintaining good credit records; no outstanding notes or other debts in default; having good corporate governance and foreign debt risk control mechanism, good credit standing, and strong solvency. The issuer of foreign debts shall handle cash inflow and flow formalities of the foreign debts with the filing certificate in accordance with regulations.

Information Disclosure

The Notice on the Relevant Issues Regarding Information Disclosure of Securities Companies (《關於證券公司信息公示有關事項的通知》) (effective from 20 April 2006) sets forth the specific requirements on information disclosure by securities companies, including methods, requirements and contents of information disclosure.

Provisions on Strengthening the Supervision and Administration of Listed Securities Companies (《關於加強上市證券公司監管的規定》) (amended on 30 June 2010 and 17 September 2020 with immediate effect), requires timely disclosure of regular reports and interim reports by listed securities companies within the prescribed period. Meanwhile, it requires that listed companies shall establish a sound information management system in accordance with the characteristics of the securities industry in the PRC, their practices and general regulations regarding information disclosure by listed companies.

HONG KONG REGULATORY ENVIRONMENT

Introduction

The SFO is the principal legislation regulating the securities and futures industry in Hong Kong and it is administered by the SFC which is the statutory regulatory body that governs the securities and futures markets and non-bank retail leveraged foreign exchange market in Hong Kong.

The banking sector in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and the powers and functions ascribed by the Banking Ordinance to the Monetary Authority. The Banking Ordinance (Cap. 155) of Hong Kong provides that only authorized institutions (that is, banks which have been granted a banking licence (“licence”) by the Monetary Authority may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks (“authorized institutions”).

Types of Regulated Activities

The SFO provides a single licensing regime under which a person needs only one license to carry on the different types of regulated activities as specified in Schedule 5 of the SFO. There are ten types of regulated activities, namely:

Type 1: dealing in securities;

Type 2: dealing in futures contracts;

Type 3: leveraged foreign exchange trading;

Type 4: advising on securities;

Type 5: advising on futures contracts;

Type 6: advising on corporate finance;

Type 7: providing automated trading services;

Type 8: securities margin financing;

Type 9: asset management; and

Type 10: providing credit rating services.

Supervision of Authorized institutions in Hong Kong

The provisions of the Banking Ordinance are implemented by the Monetary Authority, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The Monetary Authority supervises authorized institutions through, inter alia, a regular information gathering process, the main features of which are as follows:

- (1) each authorized institution must submit a monthly return to the Monetary Authority setting out the assets and liabilities of its operations in Hong Kong and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, although the Monetary Authority has the right to allow returns to be made at less frequent intervals;
- (2) the Monetary Authority may order an authorized institution, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the authorized institution concerned. Such information shall be submitted within such period and in such manner as the Monetary Authority may require. The Monetary Authority may in certain circumstances also require such information or any return submitted to it to be accompanied by a certificate of the authorized institution's auditors (approved by the Monetary Authority for the purpose of preparing the report) confirming compliance with Banking Ordinance and certain matters;
- (3) authorized institutions may be required to provide information to the Monetary Authority regarding companies in which they have an aggregate 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller, a name with common features or a concert party arrangement to promote the authorized institution's business;
- (4) in addition, authorized institutions are obliged to report to the Monetary Authority immediately of their likelihood of becoming unable to meet their obligations or of the commencement of material civil proceedings applicable only to authorized institutions incorporated in Hong Kong;

- (5) the Monetary Authority may direct an authorized institution to appoint an auditor to report to the Monetary Authority on the state of affairs and/or profit and loss of the authorized institution or the adequacy of the systems of control of the authorized institution or other matters as the Monetary Authority may reasonably require;
- (6) the Monetary Authority may, at any time, with or without prior notice, examine the books, accounts and transactions of any authorized institution, and in the case of an authorized institution incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such institution; such inspections are carried out by the Monetary Authority on a regular basis; and
- (7) authorized institutions are required to give written notice to the Monetary Authority immediately of any proposal to remove an auditor before the expiration of his term of office or replace an auditor at the expiration of his term of office.

Exercise of Powers over Authorized institution

The Monetary Authority may, after consultation with the Financial Secretary, exercise certain powers over the conduct of authorized institutions in any of the following circumstances:

- (1) when an authorized institution informs the Monetary Authority that it is likely to become unable to meet its obligations, that it is insolvent, or that it is about to suspend payment;
- (2) when an authorized institution becomes unable to meet its obligations or suspends payment;
- (3) if after an examination or investigation, the Monetary Authority is of the opinion that an authorized institution:
 - (i) is carrying on its business in a manner detrimental to the interests of its depositors or potential depositors or of its creditors or of holders or potential holders of stored value facility issued by it or the issue of which is facilitated by it;
 - (ii) is insolvent or is likely to become unable to meet its obligations or is about to suspend payment;
 - (iii) has contravened or failed to comply with any of the provisions of the Hong Kong Banking Ordinance; or
 - (iv) has contravened or failed to comply with any condition attached to its licence or certain conditions in the Banking Ordinance; and
- (4) where the Financial Secretary advises the Monetary Authority that he considers it in the public interest to do so.

In any of the circumstances described above, the Monetary Authority, after consultation with the Financial Secretary, may exercise any of the following powers:

- (1) to require the authorized institution, by notice in writing served on it, forthwith to take any action or to do any act or thing whatsoever in relation to its affairs, business and property as the Monetary Authority may consider necessary;
- (2) to direct the authorized institution to seek advice on the management of its affairs, business and property from an adviser appointed by the Monetary Authority;
- (3) to assume control of and carry on the business of the authorized institution, or direct some other person to assume control of and carry on the business of the authorized institution; or
- (4) to report to the Chief Executive in Council in certain circumstances (in which case the Chief Executive in Council may exercise a number of powers including directing the Financial Secretary to present a petition to the Court of First Instance for the winding-up of the authorized institution).

Revocation and Suspension of Banking Licence

The Monetary Authority also has powers to recommend the revocation or suspension of a licence. Both powers are exercisable after consultation with the Financial Secretary and with a right of appeal of the authorized institution concerned except in the event of temporary suspension in urgent cases. The grounds for suspension or revocation include the following:

- (1) the authorized institution no longer fulfils the criteria for authorisation and the requirements for registration;
- (2) the authorized institution is likely to be unable to meet its obligations or to suspend payment or proposes to make, or has made, any arrangement with its creditors or is insolvent;
- (3) the authorized institution has failed to provide material information required under the Hong Kong Banking Ordinance or has provided false information;
- (4) the authorized institution has breached a condition attached to its licence;
- (5) a person has become or continues to be a controller or chief executive or director of the authorized institution after the Monetary Authority has made an objection;
- (6) the interests of the depositors require that the licence be revoked; or
- (7) the authorized institution is engaging in practices likely to prejudice Hong Kong as an international financial centre or in practices (specified in the Monetary Authority guidelines) which should not be engaged in.

Revocation or suspension of a licence means that the authorized institution can no longer conduct banking business (for the specified period in the case of a suspension).

Anti-money Laundering and Counter-terrorist Financing

Licensed corporations are required to comply with the applicable anti-money laundering and counter-terrorist financing laws and regulation in Hong Kong as well as the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations) (the “Guideline”).

The Guideline provides practical guidance to assist licensed corporations and their senior management in designing and implementing their own anti-money laundering and counter-terrorist financing policies, procedures and controls in order to meet the relevant legal and regulatory requirements in Hong Kong. Under the Guideline, licensed corporations should, among other things:

- assess the risks of any new products and services before they are introduced and ensure that appropriate additional measures and controls are implemented to mitigate and manage the associated money laundering and terrorist financing risks;
- identify the client and verify the client’s identity using reliable, independent source documents, data or information, and take steps from time to time to ensure that the client information is up-to-date and relevant;
- conduct on-going monitoring of activities of the clients to ensure that they are consistent with the nature of business, the risk profile and source of funds, as well as identify transactions that are complex, large or unusual, or patterns of transactions that have no apparent economic or lawful purpose;
- maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the various lists that have been made known to it, as well as comprehensive on-going screening of the client database; and
- conduct on-going monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department to monitor and investigate suspected money laundering.

Financial Institutions Resolution Regime

On July 7, 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the “FIRO”) came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorized institutions and other financial institutions in Hong Kong. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilize and secure continuity for a failing authorized institution in Hong Kong. In particular, and subject to certain safeguards, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to write off or convert all or a part of the principal amount of, or distributions on, regulatory capital securities of relevant financial institutions in Hong Kong. Certain details relating to FIRO will be set out through secondary legislation and supporting rules.

On 17 January 2018, the Hong Kong Monetary Authority announced a public consultation on a set of proposed rules to set out minimum loss-absorbing capacity (“LAC”) requirements for authorized institutions under FIRO. The LAC requirements have been proposed in order to ensure that the resolution regime can be used effectively and that authorized institutions have sufficient loss-absorbing capacity. On 14 December 2018, the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules (Cap. 628B) came into operation as subsidiary registration under the FIRO.

OECD’s Common Reporting Standard

The Organisation for Economic Co-operation and Development (the “OECD”) has developed a draft common reporting standard (“CRS”) and model competent authority agreement to enable the multilateral, automatic exchange of financial account information. The CRS does not include a potential withholding element. Under the CRS financial institutions will be required to identify and report the tax residence status of customers in 101 countries that have endorsed the plans, of which 54 (including EU Member States) have committed to implement the CRS with first information exchanges expected in 2017. The remaining 47 countries have committed to implement the CRS on a slower timetable with first information exchanges for these countries expected in 2018.

The adoption of CRS in the PRC and Hong Kong has been effective from 1 January 2017. The PRC and Hong Kong financial institutions may begin collecting tax residency information from their account holders as early as 1 January 2017 and may report information on reportable account holders in 2018. The increased due diligence of customer information and the reporting of information to the tax authorities will increase operational and compliance costs for banks, including the Group. At this time, it is not possible to quantify the full costs of complying with the new legislation as some aspects are still to be determined.

PRC CURRENCY REGULATIONS

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers. Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and services and other current account items became permissible nationwide in 2012, except that the key enterprises on a Supervision List determined by the PBOC and five other relevant authorities would be subject to enhanced scrutiny when banks process current account cross-border repatriations.

On 5 July 2013, the PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures (《關於簡化人民跨境人民幣業務流程和完善有關政策的通知》) (the “**2013 PBOC Circular**”) with the intent to improve the efficiency of cross border Renminbi settlement and facilitate the use of Renminbi for the settlement of cross border transactions under current accounts or capital accounts. In particular, the 2013 PBOC Circular simplifies the procedures for cross border Renminbi trade settlement under current account items. On 1 November 2014, PBOC introduced a cash pooling arrangement for qualified multinational enterprise group companies, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. On 5 September 2015, PBOC promulgated the Circular on Further Facilitating the Cross-Border Bi-directional Renminbi Cash Pooling Business by Multinational Enterprise Groups (《中國人民銀行關於進一步便利跨國企業集團開展跨境雙向人民幣資金池業務的通知》) (the “**2015 PBOC Circular**”), which, among others, have lowered the eligibility requirements for multinational enterprise groups and increased the cap for net cash inflow.

On 5 January 2018, the PBOC promulgated the Notice on Further Fine-tuning the Policies on Cross-border Renminbi Business to Promote Trade and Investment Facilitation (《中國人民銀行關於進一步完善人民幣跨境業務政策促進貿易投資便利化的通知》). Accordingly, an enterprise shall be allowed to use Renminbi to settle all cross-border transactions that may be settled by foreign currencies pursuant to PRC laws.

On 23 October 2019, the SAFE promulgated the Circular of Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which further provided details in facilitating foreign exchange procedures in compliance with PRC laws.

The foregoing circulars are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Circular and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration of filing with, the relevant PRC authorities.

Settlements for capital account items were generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

Under progressive reforms by PBOC, the MOFCOM and the SAFE, foreign investors are now permitted to use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements for capital account payments in Renminbi are being removed gradually. In addition, the Circular on Reforming Foreign Exchange Capital Settlement for Foreign Invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) which became effective on 1 June 2015 and amended on 30 December 2019, allows foreign-invested enterprises to settle 100% (subject to future adjustment at discretion of SAFE) of the foreign currency capital (which has been processed through the SAFE's equity interest confirmation procedure for capital contribution in cash or registered by a bank on the SAFE's system for account-crediting for such capital contribution) into Renminbi according to their actual operational needs. A negative list with respect to the usage of the capital and the Renminbi proceeds through the aforementioned settlement procedure is set forth under the Circular. In particular, a foreign invested enterprise with investment as its main business is permitted to use such Renminbi proceeds to make equity contribution to its invested enterprises directly, without further fillings with SAFE.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "**foreign debt**") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "**outbound loans**"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in denominated and make payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "**cross-border security**"). Under current rules promulgated by SAFE, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies.

According to the 2015 PBOC Circular, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

On 10 June 2018, the State Council issued the Notice of the State Council on Certain Measures for Actively and Effectively Utilizing Foreign Investment to Promote Quality Economic Development (《國務院關於積極有效利用外資推動經濟高質量發展若干措施的通知》), to simplify the management of cash pools, relax the filing conditions for pilot for centralised operation and management of foreign exchange funds of multinational corporations and support multinational enterprise groups in conducting cross-border bi-directional Renminbi cash pooling business.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There is no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future.

The relevant regulations will be subject to interpretation and application by the relevant PRC authorities. If any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated dealer agreement dated 26 May 2021 and as further amended, restated and/or supplemented from time to time (the “**Dealer Agreement**”), agreed with the Issuer and the Guarantor a basis on which they or any of them may from time to time agree to subscribe Notes. Any such agreement will extend to those matters stated under “*Terms and Conditions of the Notes*”. Under the terms of the Dealer Agreement, the Issuer, failing whom the Guarantor, will pay each relevant Dealer a commission (if any) agreed between the Issuer, the Guarantor and the relevant Dealer in respect of Notes subscribed by it. The Issuer and the Guarantor have agreed to reimburse the Arrangers for certain of their expenses properly incurred in connection with the establishment of the Programme and any future update of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer and the Guarantor have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer the Guarantor and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor and/or their respective affiliates in the ordinary course of their business. In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

SELLING RESTRICTIONS

United States

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, the Notes and the relevant Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold or, in the case of Bearer Notes, delivered within the United States except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold or, in the case of Bearer Notes, delivered, and will not offer or sell or, in the case of Bearer Notes, deliver, any Notes and the relevant Guarantee constituting part of its allotment within the United States. The Notes and the relevant Guarantee are being offered and sold outside the United States in reliance on Regulation S.

In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, the Notes and the relevant Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold or, in the case of Bearer Notes, delivered, any Notes, and will not offer or sell or, in the case of Bearer Notes, deliver, any Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer who has subscribed for Notes of a Tranche (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as

to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the relevant lead manager) shall determine and certify to the Issuing and Paying Agent the completion of the distribution of the Notes of such Tranche. Each Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree, that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, Dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice setting out the restrictions on offers and sales of the Notes within the United States or, to, or for the account or benefit of U.S. persons.

Terms used in the above provision have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code and regulations thereunder.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Prohibition of Sales to European Economic Area Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”); and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prohibition of Sales to UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the UK. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of:
 - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR; or
 - (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”), and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Other Regulatory Restrictions in the United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer or the Guarantor;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other relevant laws and regulations of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to any Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

PRC

Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC or Taiwan), except as permitted by the securities laws of the PRC.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

British Virgin Islands

Each Dealer represents, warrants and agrees, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make any invitation directly or indirectly to the public in the British Virgin Islands or a natural person who is a British Virgin Islands resident or citizen to offer or sell the Notes and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by British Virgin Islands law.

This Offering Circular does not constitute, and there will not be, an offering of the Notes to any person in the British Virgin Islands.

General

Each Dealer agrees, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply in all material respect with all applicable securities laws, regulations and directives in force in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Offering Circular, any other offering or publicity material or any Pricing Supplement, in all cases at its own expense.

None of the Issuer, the Guarantor, the Trustee or any of the Dealers represent that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. With regard to each Tranche, the relevant Dealer(s) will be required to comply with any additional restrictions agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Pricing Supplement.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

GENERAL INFORMATION

AUTHORISATIONS

The Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme and the issue of the Notes thereunder, provided that (1) the size of the Notes is in the scope authorised by the board of directors and the resolutions of shareholders' meeting of the Guarantor; (2) as for each Tranche of Notes, the Registration Certificate of Enterprise Foreign Debt issued by NDRC is obtained. The establishment of the Programme and the issue of the Notes thereunder was authorised by the resolutions of the board of directors of the Issuer passed on 15 July 2020.

The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee, provided that (1) the size of the Notes is in the scope authorized by the board of directors and the resolutions of shareholders' meeting of the Guarantor; (2) as for each Tranche of Notes, the Registration Certificate of Enterprise Foreign Debt issued by NDRC is obtained; (3) a no-objection letter for the relevant Guarantee issued by CSRC; and (4) the relevant Guarantee is registration with SAFE or its local branches.

The PRC counsel to the Issuer, the Guarantor and the Dealers have advised that no approvals or consents are required from any regulatory authorities or other relevant authorities in the PRC for the Issuer and the Guarantor to enter into the Trust Deed and the Agency Agreement and the Guarantor to enter into the Deed of Guarantee, provided that (1) the size of the Notes is in the scope authorised by the board of directors and the resolutions of shareholders' meeting of the Guarantor; (2) as for each Tranche of Notes, the Registration Certificate of Enterprise Foreign Debt issued by NDRC is obtained; (3) a no-objection letter for the relevant Guarantee issued by CSRC; and (4) the relevant Guarantee is registered with SAFE or its local branches.

LITIGATION

Except as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, the Guarantor, any of their respective subsidiaries or any of their assets, and neither of the Issuer nor the Guarantor is aware of any pending or threatened proceedings, which are material in the context of the issue of the Notes or the giving of the Guarantee.

NO MATERIAL ADVERSE CHANGE

Except as disclosed in this Offering Circular, since 31 December 2020, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in or affecting the general affairs, financial condition, results of operations or prospects of the Issuer, the Guarantor and any of their respective subsidiaries.

DOCUMENTS AVAILABLE

For so long as Notes may be issued pursuant to this Offering Circular, copies of the following documents will be available (upon written request and proof of holding and identity satisfactory to the Trustee), during usual business hours (being between 9:00 a.m. and 3:00 p.m., Hong Kong time) on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the principal office of the Trustee, being at the date of this Offering Circular, at Level 24, HSBC Main Building, 1 Queen's Road Central, Hong Kong:

- (i) the Trust Deed (which includes the form of the Global Notes, the Global Certificates, the Notes in definitive form, the Coupons, the Receipts and the Talons);
- (ii) the Agency Agreement; and
- (iii) each Deed of Guarantee.

For so long as Notes may be issued pursuant to this Offering Circular, copies of the following documents will be available (upon written request and proof of holding and identity satisfactory to the Issuer), during usual business hours (being between 9:00 a.m. and 3:00 p.m., Hong Kong time) on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the principal office of the Issuer, being at the date of this Offering Circular, at 18/F, Two Exchange Square, Central, Hong Kong:

- (i) the constitutive documents of each of the Issuer and the Guarantor;
- (ii) the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2019 and 2020;
- (iii) each Pricing Supplement (save that a Pricing Supplement related to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer or the Trustee as to its holding of Notes and identity); and
- (iv) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein referenced.

CLEARING OF THE NOTES

Notes have been accepted for clearance through the Euroclear and Clearstream systems. The relevant ISIN and the Common Code will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be set out in the relevant Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be set out in the relevant Pricing Supplement.

FINANCIAL STATEMENTS

The Consolidated Financial Statements, which are included elsewhere in this Offering Circular, have been audited by PwC, the Guarantor's independent auditor, as stated in their reports appearing herein.

LISTING OF NOTES

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme, and for the permission to deal in, and for the listing of, Notes issued under the Programme during the 12-month period after the date of this Offering Circular on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only.

The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of issue of the relevant Notes. Admission to the Hong Kong Stock Exchange and quotation of any Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Guarantee, the Issuer, the Guarantor or the Group. The Hong Kong Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

TEFRA D LEGEND

Notes issued pursuant to TEFRA D (other than temporary Global Notes) and any Coupons, Receipts and Talons appertaining thereto will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

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To the Shareholders of CSC Financial Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 244 to 404, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- Consolidation of structured entities
- Expected credit impairment allowance of Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)

Key Audit Matter

How our audit addressed the Key Audit Matter

Consolidation of structured entities

Refer to Note 2.3, 3.2(5) and 48 to the consolidated financial statements.

The Group acted as asset manager for, or invested in, a number of investment funds and asset management plans which were structured entities. Management made significant judgements when concluding on whether the Group controlled, and therefore should consolidate, these structured entities.

Management has determined that the Group had control of certain structured entities based on their assessment of: i) the Group's power over the entities; ii) its exposure to variable returns from its involvement with those entities; and iii) its ability to use its power to affect the amount of its returns from these structured entities. Those structured entities over which Management has concluded the Group had control have been consolidated and their aggregated total assets were RMB9,351.91 million as at 31 December 2020.

The significant judgements exercised by Management in assessing whether the Group had control over the structured entities and the amount of structured entities managed or invested by the Group resulted in this matter being identified as a key audit matter.

We have evaluated and tested the effectiveness of the design and operation of the Group's internal controls related to the consolidation assessment of structured entities, including the judgement of power, the calculation of variable returns, and the consolidation scope and results.

We read a sample of the contracts from the Group's asset management and investment portfolio to assess: i) the extent of power the Group had over its structured entities; ii) the Group's exposure or rights to variable returns from its involvement with those structured entities; and iii) the relationship between the Group's power and returns with respect to the structured entities.

We selected a sample of Management's calculations of the Group's exposure or rights to variable returns from its involvement with the structured entities. We then traced the data used in these calculations back to the related contracts and re-performed the calculations to test their accuracy.

Based on the audit procedures performed above, the judgements of consolidating structured entities made by Management were considered acceptable.

Independent Auditor's Report (Continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

Expected credit impairment allowance of Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)

Refer to Notes 3.1(5), 3.2(1), 13, 23, 24, 28 and 53.1 to the consolidated financial statements.

As at 31 December 2020, the Group recognized the following financial assets in its consolidated statement of financial position:

- Margin accounts amounted to RMB47,683.85 million with a credit loss allowance of RMB1,168.67 million;
- Financial assets held under resale agreements amounted to RMB17,202.97 million with a credit loss allowance of RMB1,085.77 million;
- Financial assets at fair value through other comprehensive income (debt instruments) amounted to RMB44,816.76 million with a credit loss allowance of RMB317.72 million.

The credit impairment losses for the aforesaid financial assets recognized in the Group's consolidated income statement for the year ended 31 December 2020 amounted to RMB1,307.34 million.

We understood, evaluated and tested the Group's internal controls relating to the measurement of ECL, primarily including:

- (1) Governance over ECL models, including the selection and approval of modelling methodology; and the ongoing monitoring and optimization of the models;
- (2) Significant management judgements and assumptions, including the judgement of model selections, parameters estimation, significant increase in credit risk ("SICR"), defaults and credit-impaired, and the approval of forward-looking measurements;
- (3) Internal controls over the accuracy and completeness of key inputs used by the models;
- (4) Internal controls relating to estimated future cash flows for the financial assets classified under Stage 3.

Independent Auditor's Report (Continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

Management applied a three – stage impairment model to calculate their ECL. For such financial assets classified under Stages 1 and 2, Management assessed credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default, loss given default and exposure at default. For credit-impaired financial assets classified under Stage 3, Management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets.

The measurement model for ECL involves significant management judgements and assumptions for each type investment, primarily including the following:

- (1) Selection of the appropriate models and determination of relevant key measurement parameters;
- (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- (3) Determination of forward-looking measurements and weightings; and
- (4) The estimated future cash flows for the financial assets classified under Stage 3.

The Group has established governance processes and controls over the measurement of ECL.

We assessed the appropriateness of the modelling methodologies adopted for ECL measurement. We also examined the underlying coding for model measurement on a sample basis, to test whether or not the models reflect the modelling methodologies documented by the Management.

We examined key inputs used by the models, including related financial assets risk exposure, the value of the collateral of Margin accounts and Financial assets held under resale agreements, credit rating information of the debt instruments etc, on a sample basis.

We examined appropriateness of the management's application of SICR, defaults and credit impairment criteria on a sample basis, based on information such as the borrower's credit, guarantees and overdue days, etc.

For forward-looking measurements, we assessed management's selection of economic indicators and the reasonableness of the prediction of economic indicators by using statistical techniques. In addition, we performed sensitivity analysis of economic scenarios and weightings.

Independent Auditor's Report (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>For measuring ECL, the Group developed a number of complex models, adopted numerous parameters and data inputs, and applied significant management judgements and assumptions. In addition, the amounts involved were significant to the Group's financial statements. This led to this matter being identified as a key audit matter.</p>	<p>For financial assets classified under Stage 3, we examined, on a sample basis, the credit loss allowance calculated by Management with reference to information of borrowers, the latest collateral valuations and payback period, etc.</p> <p>Based on the audit procedures performed, we considered the models, key parameters, significant judgements and assumptions adopted by Management in the ECL measurement and the measurement result to be acceptable.</p>

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siaw Jian Chern.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 31 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

	Note	Year ended 31 December	
		2020	2019
Revenue			
Fee and commission income	6	13,624,258	8,632,665
Interest income	7	7,103,653	6,243,047
Net investment gains	8	8,673,322	4,406,510
		<u>29,401,233</u>	<u>19,282,222</u>
Other income	9	1,318,892	125,172
		<u>30,720,125</u>	<u>19,407,394</u>
Total revenue and other income			
Fee and commission expenses	10	(1,599,870)	(1,007,621)
Interest expenses	10	(5,772,932)	(4,683,906)
Staff costs	10	(6,436,296)	(4,709,554)
Tax and surcharges		(156,047)	(98,597)
Other operating expenses and costs	10	(3,244,948)	(1,805,800)
Credit impairment (losses)/reversals	13	(1,318,850)	59,430
Impairment losses on other assets		(77,324)	–
		<u>(18,606,267)</u>	<u>(12,246,048)</u>
Total expenses			
		<u>12,113,858</u>	<u>7,161,346</u>
Operating profit			
		<u>11,865</u>	<u>(7,606)</u>
Share of profits and losses of associates			
Profit before income tax		12,125,723	7,153,740
Income tax expense	14	(2,589,038)	(1,624,092)
		<u>9,536,685</u>	<u>5,529,648</u>
Profit for the year			
Attributable to:			
Equity holders of the Company		9,509,429	5,501,688
Non-controlling interests		27,256	27,960
		<u>9,536,685</u>	<u>5,529,648</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	16	1.20	0.67

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2020	2019
Profit for the year	9,536,685	5,529,648
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent years		
Net gains on investments in debt instruments measured at fair value through other comprehensive income	190,485	257,719
Net gains on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	(151,015)	(98,651)
Income tax relating to these items	(8,546)	(38,744)
	30,924	120,324
Share of other comprehensive income of associates	9	(1,352)
Foreign currency translation differences	(100,171)	33,836
Items that will not be reclassified subsequently to profit or loss		
Net gains on investments in equity instruments designated as at fair value through other comprehensive income	69,843	154,688
Income tax relating to these items	(17,958)	(37,442)
	51,885	117,246
Other comprehensive (loss)/income for the year, net of tax	(17,353)	270,054
Total comprehensive income for the year	9,519,332	5,799,702
Attributable to:		
Equity holders of the Company	9,492,076	5,771,742
Non-controlling interests	27,256	27,960
	9,519,332	5,799,702

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

Consolidated Statement of Financial Position

As at 31 December 2020

(In RMB thousands, unless otherwise stated)

	Note	31 December 2020	31 December 2019
Non-current assets			
Property, plant and equipment	17	572,287	503,438
Right-of-use assets	18	996,674	1,102,008
Investment properties		56,133	49,438
Intangible assets	19	360,478	235,918
Investment in associates	21	229,286	269,512
Financial assets at fair value through profit or loss	22	6,015,508	3,296,031
Financial assets at fair value through other comprehensive income	23	3,225,144	3,153,312
Financial assets held under resale agreements	24	1,348,317	2,507,276
Refundable deposits	25	8,740,991	2,793,611
Deferred tax assets	26	1,725,519	963,865
Other non-current assets	27	98,365	126,428
Total non-current assets		23,368,702	15,000,837
Current assets			
Margin accounts	28	46,515,175	27,806,140
Accounts receivable	29	8,018,153	2,136,866
Financial assets at fair value through profit or loss	22	132,640,140	88,459,902
Financial assets at fair value through other comprehensive income	23	44,871,712	32,490,523
Derivative financial assets	30	1,632,209	955,450
Financial assets held under resale agreements	24	14,768,886	18,611,480
Cash held on behalf of clients	31	70,268,389	52,695,657
Cash and bank balances	32	28,580,085	47,221,055
Other current assets	33	564,692	291,715
Total current assets		347,859,441	270,668,788
Total assets		371,228,143	285,669,625

Consolidated Statement of Financial Position (Continued)

As at 31 December 2020

(In RMB thousands, unless otherwise stated)

	Note	31 December 2020	31 December 2019
Current liabilities			
Accounts payable to brokerage clients	34	74,710,488	54,625,736
Lease liabilities	35	323,956	340,140
Derivative financial liabilities	30	2,424,620	761,572
Financial liabilities at fair value through profit or loss	36	347,466	1,126,344
Financial assets sold under repurchase agreements	37	84,512,239	55,532,975
Placements from banks and other financial institutions	38	9,035,700	9,263,545
Taxes payable	39	1,393,426	600,594
Short-term borrowings	40	625,174	889,012
Short-term financing instruments payable	41	42,296,044	17,495,953
Other current liabilities	42	34,497,643	52,599,717
Total current liabilities		<u>250,166,756</u>	<u>193,235,588</u>
Net current assets		<u>97,692,685</u>	<u>77,433,200</u>
Total assets less current liabilities		<u>121,061,387</u>	<u>92,434,037</u>
Non-current liabilities			
Financial liabilities at fair value through profit or loss	36	1,248,263	–
Bonds in issue	43	50,016,307	34,133,021
Lease liabilities	35	655,308	735,122
Deferred tax liabilities	26	1,065,416	660,874
Other non-current liabilities		4,646	10,286
Total non-current liabilities		<u>52,989,940</u>	<u>35,539,303</u>
Net assets		<u>68,071,447</u>	<u>56,894,734</u>

Consolidated Statement of Financial Position (Continued)

As at 31 December 2020

(In RMB thousands, unless otherwise stated)

	Note	31 December 2020	31 December 2019
Equity			
Share capital	44	7,756,695	7,646,385
Other equity instruments	45	9,961,509	9,980,698
Reserves	46	27,940,854	21,412,062
Retained earnings		22,076,125	17,542,774
Equity attributable to equity holders of the Company		67,735,183	56,581,919
Non-controlling interests		336,264	312,815
Total equity		68,071,447	56,894,734

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

Approved and authorized for issue by the Board of Directors on 31 March 2021.

Wang Changqing
Chairman

Li Geping
Executive Director and President

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company											
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	Reserves			Retained earnings	Subtotal	Non-controlling interests	Total
						General reserves	Investment revaluation reserve	Foreign currency translation reserve				
At 1 January 2020		7,646,385	9,980,698	8,753,213	3,573,328	8,691,508	203,472	190,541	17,542,774	56,581,919	312,815	56,894,734
Profit for the year		-	-	-	-	-	-	-	9,509,429	9,509,429	27,256	9,536,685
Other comprehensive income for the year		-	-	-	-	-	82,818	(100,171)	-	(17,353)	-	(17,353)
Total comprehensive income for the year		-	-	-	-	-	82,818	(100,171)	9,509,429	9,492,076	27,256	9,519,332
Capital injected by equity holders												
- Issuance of A shares	44	110,310	-	3,737,454	-	-	-	-	-	3,847,764	-	3,847,764
- Capital injected by other equity instrument holders	45	-	(19,189)	-	-	-	-	-	-	(19,189)	-	(19,189)
Appropriation to surplus reserves	46	-	-	-	951,319	-	-	-	(951,319)	-	-	-
Appropriation to general reserves	46	-	-	-	-	1,857,372	-	-	(1,857,372)	-	-	-
Dividends - 2019	15	-	-	-	-	-	-	-	(1,796,901)	(1,796,901)	-	(1,796,901)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	-	(370,486)	(370,486)	-	(370,486)
Dividends to non-controlling interests		-	-	-	-	-	-	-	-	-	(3,807)	(3,807)
At 31 December 2020		7,756,695	9,961,509	12,490,667	4,524,647	10,548,880	286,290	90,370	22,076,125	67,735,183	336,264	68,071,447

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company												
	Note	Share capital	Other equity instruments	Reserves					Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
				Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve						
At 1 January 2019		7,646,385	5,000,000	8,753,213	3,013,066	7,535,426	(32,746)	156,705	15,505,197	47,577,246	286,151	47,863,397	
Profit for the year		-	-	-	-	-	-	-	5,501,688	5,501,688	27,960	5,529,648	
Other comprehensive income for the year		-	-	-	-	-	236,218	33,836	-	270,054	-	270,054	
Total comprehensive income for the year		-	-	-	-	-	236,218	33,836	5,501,688	5,771,742	27,960	5,799,702	
Capital injected by equity holders													
- Capital injected by subsidiaries' non-controlling equity holders		-	-	-	-	-	-	-	-	-	8,350	8,350	
- Capital injected by other equity instrument holders	45	-	4,980,698	-	-	-	-	-	-	4,980,698	-	4,980,698	
Appropriation to surplus reserves	46	-	-	-	560,262	-	-	-	(560,262)	-	-	-	
Appropriation to general reserves	46	-	-	-	-	1,156,082	-	-	(1,156,082)	-	-	-	
Dividends - 2018	15	-	-	-	-	-	-	-	(1,376,349)	(1,376,349)	-	(1,376,349)	
Distribution to other equity instrument holders	15	-	-	-	-	-	-	-	(371,418)	(371,418)	-	(371,418)	
Dividends to non-controlling interests		-	-	-	-	-	-	-	-	-	(9,646)	(9,646)	
At 31 December 2019		7,646,385	9,980,698	8,753,213	3,573,328	8,691,508	203,472	190,541	17,542,774	56,581,919	312,815	56,894,734	

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2020	2019
Cash flows from operating activities		
Profit before income tax	12,125,723	7,153,740
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable, borrowings and lease liabilities	3,343,280	2,954,034
Dividend income and interest income from financial assets at fair value through other comprehensive income	(1,314,437)	(1,361,251)
Net gains from disposal of financial assets at fair value through other comprehensive income	(403,282)	(157,198)
Interest income and net gains from disposal of financial assets at amortized costs	–	(6,618)
Net gains attributable to other interest holders of consolidated structured entities	341,433	507,086
Share of profits/losses from associates and joint ventures	(11,865)	7,606
Net gains on disposal of property, plant, equipment and other assets	(237)	(334)
Revaluation gains on financial instruments at fair value through profit or loss	(1,049,174)	(1,644,325)
Net foreign exchange losses/(gains)	16,471	(287)
Depreciation and amortization	644,150	572,534
Credit impairment losses/(reversals)	1,318,850	(59,430)
Impairment losses on other assets	77,324	–
	<u>15,088,236</u>	<u>7,965,557</u>
Net changes in operating assets		
Margin accounts	(18,529,559)	(2,672,642)
Financial assets at fair value through profit or loss	(44,646,486)	(31,712,884)
Cash held on behalf of clients	(17,551,464)	(18,999,203)
Financial assets held under resale agreements	4,000,259	2,684,240
Other operating assets	(13,091,836)	(2,624,988)
	<u>(89,819,086)</u>	<u>(53,325,477)</u>

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2020	2019
Net changes in operating liabilities		
Accounts payable to brokerage clients	20,084,752	19,587,151
Financial liabilities at fair value through profit or loss	396,931	(108,089)
Financial assets sold under repurchase agreements	29,020,165	22,938,207
Placements from banks and other financial institutions	(240,000)	5,240,000
Other operating liabilities	(10,475,940)	16,549,619
	<u>38,785,908</u>	<u>64,206,888</u>
Net cash (outflow)/inflow from operating activities before tax	(35,944,942)	18,846,968
Income tax paid	(2,362,925)	(1,155,350)
Net cash (outflow)/inflow from operating activities	<u>(38,307,867)</u>	<u>17,691,618</u>
Cash flows from investing activities		
Net cash flow from purchase or disposal of financial assets at fair value through other comprehensive income	(11,967,096)	(4,124,180)
Dividend income and interest income received from financial assets at fair value through other comprehensive income	1,010,653	1,268,489
Cash paid for purchase of property, plant and equipment, intangible assets and other assets	(432,774)	(290,266)
Net cash flow from purchase or disposal of financial assets at amortized costs	–	186,305
Net cash flow from investments in associates	(25,224)	29,307
Other cash flows from investing activities	2,243	(13,105)
Net cash outflow from investing activities	<u>(11,412,198)</u>	<u>(2,943,450)</u>

Consolidated Statement of Cash Flows (Continued)

*For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)*

	Year ended 31 December	
	2020	2019
Cash flows from financing activities		
Cash inflows from perpetual bonds	5,000,000	5,000,000
Cash inflows from issuance of A shares	3,884,000	–
Cash inflows from capital injected by non-controlling interests	–	8,350
Cash inflows from borrowing activities	21,634,588	30,711,104
Cash inflows from issuing bonds	166,509,294	71,444,940
Cash outflows from dividend distribution to ordinary shareholders	(1,796,901)	(1,376,349)
Cash outflows from distribution to other equity instrument holders	(516,500)	(294,000)
Cash outflows from distribution to subsidiaries' non-controlling equity holders	(3,807)	(9,646)
Repayments of interest on debts	(3,321,880)	(2,711,272)
Repayments of debts	(154,921,466)	(86,841,667)
Repayments of perpetual bonds	(5,000,000)	–
Other cash outflows from financing activities	(642,465)	(649,484)
Net cash inflow from financing activities	<u>30,824,863</u>	<u>15,281,976</u>
Net change in cash and cash equivalents	(18,895,202)	30,030,144
Cash and cash equivalents at the beginning of the year	46,935,568	16,841,813
Effect of exchange rate changes on cash and cash equivalents	(274,867)	63,611
Cash and cash equivalents at the end of the year (Note 47)	<u><u>27,765,499</u></u>	<u><u>46,935,568</u></u>

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

1 GENERAL INFORMATION

CSC Financial Co., Ltd. (the “Company”) (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the “CSRC”) on 2 November 2005. The original registered capital of the Company was RMB2,700,000,000. The registered address of the Company is Unit 4, No.66 Anli Road, Chaoyang District, Beijing, the People's Republic of China (the “PRC”).

The Company received the approval of CSRC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100,000,000.

The Company completed its initial public offering of overseas listed foreign shares (“H shares”) on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076,470,000 new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69,915,238 H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246,385,238 after such issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

The Company completed its initial public offering of domestic listed shares (“A shares”) on the Shanghai Stock Exchange on 20 June 2018. The Company issued a total of 400,000,000 shares with a nominal value of RMB1 per share. After this issuance, the share capital of the Company increased to RMB7,646,385,238. The Company completed the registration procedure for its non-public offering of A-shares in the Shanghai branch of China Securities Depository and Clearing Co., Ltd. on 28 December 2020. The Company issued a total of 110,309,559 shares with a nominal value of RMB1 per share. After this issuance, the share capital of the Company increased to RMB7,756,694,797.

The principal activities of the Company and its subsidiaries (collectively, the “Group”) include securities brokerage, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsoring, proprietary trading and investment of securities, securities asset management, agency sale of securities investment funds, introducing brokerage for futures companies, margin financing and securities lending services, agency sale of financial products, market-making of stock options, custodian services for securities investment funds, and sale of precious metal products, commodity futures brokerage, financial futures brokerage and asset management, equity investment and corporate management services, investment management, raising and management of investment funds, investment management of equity investment, investment consulting, project consulting.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as issued by the International Accounting Standards Board (“IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622).

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets/liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, which have been measured at fair value, as further explained in the respective accounting policies below. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Amendments to the accounting standards effective in 2020 and adopted by the Group

- | | | |
|-----|--|---|
| (1) | Amendments to IAS 1 and IAS 8 | The Definition of Material |
| (2) | Amendments to IFRS 3 | The Definition of A Business |
| (3) | Revised Conceptual Framework for Financial Reporting | |
| (4) | Amendments to IFRS 9, IAS 39, IFRS 7 | Interest Rate Benchmark Reform – Phase 1. |
| (5) | Amendments to IFRS 16 | COVID-19 Related Rent Concessions |

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

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole. The amendment also clarifies the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2020 and adopted by the Group (Continued)

(2) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term “outputs” is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

(3) Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: (i) increasing the prominence of stewardship in the objective of financial reporting; (ii) reinstating prudence as a component of neutrality; (iii) defining a reporting entity, which may be a legal entity, or a portion of an entity; (iv) revising the definitions of an asset and a liability; (v) removing the probability threshold for recognition and adding guidance on derecognition; (vi) adding guidance on different measurement basis; (vii) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2020 and adopted by the Group (Continued)

(4) Amendments to IFRS 9, IAS 39, IFRS 7: Interest Rate Benchmark Reform – Phase 1

The IASB issued amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform – Phase 1. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and address uncertainties related to the ongoing reform of interbank offered rates (IBOR). When prospective assessments are made, a company should assume that the interest rate benchmark on which the hedged item, the hedging instrument and the cash flow of hedged risk are based is not altered as a result of IBOR reform.

(5) Amendments to IFRS 16: COVID-19 Related Rent Concessions

The IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions as they are not lease modifications. In such cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

There were no significant impacts from the amendments above on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	IFRS 17	Insurance Contracts	1 January 2022
(2)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred. Early application of the amendments continues to be permitted.
(3)	Amendments to IAS 1	Classification of Liabilities	1 January 2022
(4)	Amendments to IFRS 3	Business Combinations	1 January 2022
(5)	Amendments to IAS16	Property, Plant and Equipment	1 January 2022
(6)	Amendments to IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
(7)	Amendments to IFRS 7, IFRS 4 and IFRS16	Interest Rate Benchmark Reform – Phase 2	1 January 2021

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(1) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group anticipates that the adoption of these amendments will not have any impact on the Group's consolidated financial statements.

(2) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(3) *Amendments to IAS 1: Classification of Liabilities*

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The entity should assess the existence of the right on the reporting date, whether the right will be enforced is out of consideration. The right to defer only exists if the entity complies with any relevant conditions at the reporting date. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(4) *Amendments to IFRS 3: Business Combinations*

Amendments to IFRS 3: 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(5) *Amendments to IAS 16: Property, Plant and Equipment*

Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(6) Amendments to IAS 37: Provisions, Contingent Liabilities and Contingent Assets

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(7) Amendments to IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

The Phase 2 amendments introduce a practical expedient if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate and will not result in gain or loss in the income statement. These amendments also provide reliefs that are exceptions of normal hedge relationship requirements. For example, a company will not need to discontinue existing hedging relationships because of changes to hedge documentation required solely by IBOR reform. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The accounting policies and accounting period of the Company and its subsidiaries are consistent.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.3 Basis of consolidation (Continued)

Income or expenses resulted from acquisition or disposal of subsidiaries, from the date on which the Company obtains control to the date on which the Company ceases its control over subsidiaries, are in the scope of consolidation. Intra-group assets and liabilities, equity, income, expenses, and cash flow which are relevant to all intra-group transactions occurred should be eliminated on consolidation.

A portion of equity over subsidiaries and profit or loss which does not belong to the Company should be treated as non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the Company.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

3.1 Significant accounting policies

(1) Accounting period

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

(2) Functional and presentation currency

The Company's functional and presentation currency is RMB.

Each entity in the Group determines its own functional currency according to its economic situation. The functional currency is denominated in RMB in the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(3) Cash and cash equivalents

Cash comprises cash on hand and demand deposits which are not restricted as to use.

Cash equivalents comprise short term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

(4) Foreign currency transactions and foreign currency translation

The Group adopts the sub-account system to record foreign currency transactions. Foreign currency transactions are initially recorded on the original currency respectively at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. The exchange rate is the central parity rate quoted by the People's Bank of China or authorized bodies. All differences are taken to the consolidated income statement. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions.

The assets and liabilities of foreign operation subsidiaries denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of reporting period for consolidated financial statements. The equity items, excluding "retained earnings", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the rates that approximate the spot exchange rates. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognized in other comprehensive income ("OCI") and accumulated in the foreign exchange translation reserve. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments

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

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the assets and the cash flow characteristics of the assets in the following measurement categories: (i) Amortized cost; (ii) Fair value through other comprehensive income ("FVOCI"); (iii) Fair value through profit or loss ("FVPL").

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

Financial assets (Continued)

Business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

Financial assets (Continued)

The classification requirements for debt instruments assets and equity instruments assets are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government bonds, corporate bonds and subordinated bonds. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of the asset.

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

- (i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated as at FVPL, are measured at amortized cost.
- (ii) Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated as at FVPL, are measured at FVOCI.
- (iii) Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

Financial assets (Continued)

Debt Instruments (Continued)

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at FVPL, which is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

Financial liabilities (Continued)

Contingent liabilities recognized by buyers should be measured as FVPL under business combination for entities owned by different ultimate shareholders.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss: (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

(b) *Reclassification of financial assets*

When the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

(c) *Subsequent measurement of financial instruments*

Subsequent measurement of financial instruments depends on the categories:

Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and; (iii) for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

Amortized cost (Continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss allowance). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

Fair value through other comprehensive income (Continued)

Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when 1) the Group's right to receive payments is established, 2) it is probable that future economic benefits associated with the item will flow to the Group, 3) the amounts of the dividends can be measured reliably.

Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net investment gains" in the period in which it arises.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

Financial assets at fair value through profit or loss (Continued)

Equity instruments

Gains and losses on equity investments at FVPL are included in the “Net investment gains” in the consolidated income statement.

Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss. The gains and losses from financial liabilities including the effects of credit risk variance should be recognized in current profit and loss by the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

(d) *Fair value of financial instruments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

Default Valuation Adjustments (DVA) are applied to the Group's financial liabilities at fair value through profit or loss, and assumes that DVA stay the same before and after the transfer of the liability. DVA refer to risk that enterprises fail to perform the obligation, including but not limited to their own credit risk.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

(d) *Fair value of financial instruments* (Continued)

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

(e) *Impairment of financial assets*

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

The Group measures the ECL of a financial instrument reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

- Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.
- Stage 2: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired.
- Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

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

The Group applies the impairment requirements for the recognition and measurement of credit loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in OCI and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date since the credit risk of that financial instrument has increased significantly since initial recognition is no longer met, and the amount of ECL reversal is recognized in profit or loss, except for POCI financial assets.

(f) *Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement. The difference between fair value and carrying amount is recognized as investment income when disposing.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) *Financial instruments* (Continued)

(g) *Derecognition of Financial Instruments*

A financial asset is derecognized, when one of the following criteria is satisfied: (i) the contractual rights to receive cash flows from the assets have expired; (ii) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; (iii) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control.

When equity financial assets designated as at FVOCI are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to retained earnings. When other financial assets are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net investment gains".

A financial liability is derecognized when it is wholly or partly extinguished, that is when the obligation is wholly or partly discharged. Fair value gains and losses are charged to profit or loss. When financial liabilities designated as at FVPL are derecognized, cumulative gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

(h) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Otherwise, financial assets and financial liabilities are reported separately.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(6) Leases

(a) Initial measurement of the right-of-use asset and lease liability

Initial measurement of the right-of-use asset

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee. The lease term is defined as the non-cancellable period of the lease for the Group as a lessee.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(6) Leases (Continued)

(a) Initial measurement of the right-of-use asset and lease liability (Continued)

Initial measurement of the right-of-use asset (Continued)

Initial direct costs are defined as incremental costs. Incremental costs would not have been incurred if a lease had not been obtained.

Initial measurement of the lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date.

The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

The lessee uses as the discount rate the interest rate implicit in the lease – this is the rate of interest that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(6) Leases (Continued)

(b) Subsequent measurement of the right-of-use asset and lease liability

Subsequent measurement of the right-of-use asset

At the commencement date, the Group as a lessee shall measure the right-of-use asset at cost and apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Subsequent measurement of the lease liability

After the commencement date, the Group shall recognise interest on the lease liability in profit or loss. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

(c) Recognition of short-term leases and leases of low value assets

Short-term leases are leases with a lease term of 12 months from the commencement date or less. Leases of low value assets are the underlying assets are of low value when new. The right-of-use asset and lease liability are not recognized by the Group for short-term leases and leases of low value assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(7) Reverse repurchase agreements and financial assets sold under repurchase agreements

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as original financial assets before transferred. The corresponding liability is included in financial assets sold under repurchase agreements.

Consideration paid for financial assets held under agreements to resell are recorded as reverse repurchase agreements, the related collateral accepted is not recognized in the consolidated financial statements.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is recognized through profit or loss.

(8) Margin financing and securities lending services

Margin financing and securities lending services refer to the lending of funds by the Group to clients for purchase of securities, or lending of securities by the Group to clients for securities selling, for which the clients provide the Group with collateral.

The Group recognizes margin accounts at initial recognition, and recognizes interest income accordingly. Securities lent are not derecognized, but still accounted for as the original financial assets, and interest income is recognized accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(9) *Fiduciary wealth management*

The Group's fiduciary wealth management business includes targeted asset management, collective asset management and specified asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

(10) *Associates*

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates.

(11) *Investment properties*

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased out.

The Group's investment properties are accounted for using the cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(12) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment refer to tangible assets held and controlled by the Group that the Group expects to use for more than one year for using in the supply of services or for administrative purpose. An asset is recognized as property, plant and equipment only if the following criteria are both satisfied:

- (i) It is highly probable that future economic benefits associated with the property, plant and equipment will flow to the Group;
- (ii) The cost of the asset can be measured reliably.

(b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance expenditure are recognized in the profit or loss as incurred. Depreciation of property, plant and equipment is calculated on the straight-line basis monthly.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(12) Property, plant and equipment (Continued)

(b) Property, plant and equipment initially measured at cost (Continued)

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment which are required by the operation of the Group are as follows:

Types of property plant and equipment	Estimated useful life	Monthly depreciation rate	Estimated residual value
Properties and buildings	35 years	2.262%	5%
Electronic devices	2 to 5 years	1.667%-4.167%	0%
Transportation vehicles	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	0%
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

The years that the property, plant and equipment were already in use were excluded when determining the estimated useful lives of these types of the property, plant and equipment. The estimated useful life, the estimated residual value and the depreciation method of each type of the property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(12) *Property, plant and equipment* (Continued)

(c) *Construction in progress*

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalization and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

(13) *Intangible assets*

Intangible assets are recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognized as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortized on a straight-line basis over the useful period. The useful lives and amortization method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(13) *Intangible assets* (Continued)

Trading seat rights at Shanghai and Shenzhen Stock Exchanges are amortized over 10 years (subject to any changes in industry rules subsequently issued) and charged to the consolidated income statement. Outsourcing software is amortized over 5 years. Self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets are amortized over their useful lives.

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed during every accounting period. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

(14) *Long-term pre-paid expense*

Improvement expenses on property, plant and equipment under operating leases are amortized on a straight-line basis over the shorter of the contractual lease terms and 5 years, while long-term pre-paid expenses are amortized on a straight-line basis over their respective benefit periods but no longer than 10 years.

(15) *Revenue*

An entity should determine at contract inception whether control of a good or service is transferred over time or at a point in time. The determination should depict the transfer of benefits to the customer and should be evaluated from the customer's perspective.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(15) Revenue (Continued)

An entity should first assess whether the performance obligation is satisfied with the following criteria over time. If not, the good or service transfers at a point in time.

- (i) The customer concurrently receives and consumes the benefits provided by the entity's performance as the entity performs.
- (ii) The entity's performance creates or enhances a customer-controlled assets.
- (iii) The entity's performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Where performance of a single service contract takes place over time, revenue should be recognized as performance takes place, excluding the stage of performance cannot be determined.

An entity that cannot reasonably measure the outcome of a performance obligation, but expects to recover the costs incurred, should recognize revenue only to the extent of the cost until a reliable measure of progress can be made.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(15) Revenue (Continued)

An entity will recognize revenue at a point in time (when control transfers) for performance obligation that meet the criteria for recognition of revenue at a point in time:

- Revenue from underwriting services is recognized when the control of the underwriting services is provided to the client. The revenue is usually recognized upon completion of the offering.
- Revenue from the securities brokerage services is recognized on the date of the securities transaction.
- Revenue from asset management services is recognized when management services are provided in accordance with the asset management contract.
- Revenues from other businesses, including investment banking advisory and sponsoring services are recognized when the contractual obligations are fulfilled.

Interest income of debt investments at amortized costs and FVOCI, is measured by carrying amount and effective interest rate. Interest income of credit impaired financial assets are measured by amortized cost and effective interest rate. Net gains of holding period from financial investments at FVPL is measured as “Net investment gains”.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(16) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using the liability method on temporary differences arising between the carrying amount of an asset or liability at the end of the reporting period and its tax base.

All taxable temporary differences are recognized as deferred income tax liabilities, except:

- (i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(16) *Income tax* (Continued)

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilized, except:

- (i) The deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(16) *Income tax* (Continued)

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. When it is virtually probable that sufficient taxable income will be available, the reduced amount will be reversed accordingly.

Deferred tax assets and liabilities are offset:

- (i) when there is a legally enforceable right to set off deferred tax assets against deferred tax liabilities; and
- (ii) when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(17) *Employee compensation*

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees or compensate for the termination of labour contract. The compensation payable is recognized as liability in the accounting period of services provided by employee. The employee compensation comprises of short-term compensation, post-employment welfare, termination benefits, and other long-term employee welfares.

Short-term compensation comprises of staff salaries, bonus, allowances, and subsidies, as well as social insurance expenses including employee welfare, medical insurance charge, work-related injury insurance charge, and maternity insurance and also covers housing funds, labour union expenses, personnel education expenses, short-term paid leave, short-term profit-sharing plan, non-monetary welfare and other short-term compensations.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(17) *Employee compensation* (Continued)

Post-employment welfare plans refer to agreements reached with employees or policies and measures established by the Group in relation to post-employment welfare. The defined contribution plans refer to post-employment welfare plans in which the Group pays contribution to an independent fund and the Group has no further payment obligation.

(18) *Government grants*

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognized at nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods stipulated in government documents are recognized as government grants related to assets. Judgements should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic condition are recognized as government grants related to assets, whereas the other grants are related to income.

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released into the consolidated income statement during the period when the expense incurs. Government grants that are to compensate the incurred expenses or losses are recognized into profit or loss directly. Government grants related to assets are recognized as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded in the consolidated income statement directly.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(19) Impairment

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is any indication that assets are impaired. When any such indication exists, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group reduces the carrying amount to recoverable amount. The reduced amounts are recognized in the consolidated income statement and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(19) Impairment (Continued)

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, if there is indication of impairment, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognizes relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on pro rata basis.

Once the loss of impairment of the above-mentioned assets has been recognized, it will not be reversed in the future accounting period.

(20) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties.

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(20) Related parties (Continued)

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(21) Contingencies

The obligation pertinent to contingencies shall be recognized as provisions when the following conditions are satisfied concurrently:

- the obligation is a present obligation of the Group;
- the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and
- the amount of the obligation can be reliably measured.

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at each balance sheet date. If there is substantial evidence that the amount of provisions cannot reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that a rise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(22) *Perpetual bonds*

Perpetual bonds issued by the Group, which satisfied with the following criteria are classified as equity instruments:

- (i) Financial instruments exclude those are settled on a net basis in cash (or other financial assets);
- (ii) Financial instruments must or can be settled on own equity: (a) For non-derivative contracts, they exclude those are settled gross by delivery of a variable number of own shares; (b) Derivative contracts that result in the delivery of a fixed amount of cash or other financial assets for a fixed number of an entity's own equity instruments.

Dividends for the perpetual bonds, which are classified as equity instruments, are accounted for as profit distribution.

(23) *Profit distribution*

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory surplus reserve, 10% of after-tax profit for a general risk reserve, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve. In addition, with the approval from the Annual General Meeting, the Company may appropriate certain proportions of net profit for a discretionary surplus reserve after setting aside the statutory surplus reserve. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General risk reserve and transaction risk reserve sets aside by the Company are used to make up for any losses arising from securities transactions. The Company's reserve funds are used to make up for any losses of the Company, expand the Company's business or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve funds are converted to capital, the balance of the statutory reserve funds cannot be less than 25% of the Company's registered capital.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(23) Profit distribution (Continued)

Dividends proposed by the directors are not deducted from equity, until they have been approved by the ordinary equity holders in the Annual General Meeting. When these dividends have been approved by the ordinary equity holders, they are recognized as a liability.

3.2 Significant accounting judgements and estimates

During the preparation of the Group's financial statements, management will make judgements, estimates and assumptions about the impact of future uncertainties on revenue, expenses, assets and liabilities, and disclosure of contingent liabilities. At the end of the reporting period, management made the following judgements and main assumptions on major future uncertainties, which might lead to adjustments in the book value of assets and liabilities.

(1) Measurement of the expected credit loss allowance

The measurement of the expected credit loss ("ECL") allowance for debt instruments, including investments in financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Selection of the appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Determination of forward-looking measurements and weightings; and
- The estimated future cash flows for the financial assets classified under Stage 3.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 Significant accounting judgements and estimates (Continued)

(1) *Measurement of the expected credit loss allowance* (Continued)

Inputs, assumptions and estimation techniques

ECL are the discounted product of probability of default having considered the forward-looking impact, exposure at default, and loss given default.

Forward – looking information incorporated in the ECL model

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. These economic variables and their associated impact on the probability of default (“PD”) vary by product type. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Details of the significant accounting judgements and estimates above please refer to Note 53.1.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 Significant accounting judgements and estimates (Continued)

(2) *Classification of financial assets*

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required. Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are prepayment of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

(3) *Fair Value of financial instruments*

For financial instruments where there is a lack of active market, the Group uses valuation methods to determine its fair value. Valuation methods include referring to the transaction price determined when fair transactions are conducted between economic entities with complete information and willingness to buy and sell in the market, referring to the fair value of another similar financial instrument in the market, or using discount cash flow analysis and option pricing model to estimate. Valuation methods maximize the use of observable market information. However, when observable market information is unavailable, management will estimate the significant non-observable information included in the valuation methods.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 Significant accounting judgements and estimates (Continued)

(4) *Income tax*

The Group needs to make a judgement on future tax treatment of certain transactions to confirm income tax. In accordance with relevant tax regulations, the Group carefully evaluates the impact of income tax on transactions and accordingly calculates income tax. The deferred income tax assets can only be recognized when there is a possibility of future taxable profits and can be used to offset the temporary differences. This requires a major judgement on the tax treatment of certain transactions and a significant estimate of the possibility of having sufficient future taxable profits to offset deferred income tax assets.

(5) *Consolidation of structured entities*

Management needs to make significant judgements on whether to control and consolidate structured entities, confirming whether it will affect accounting treatment and the financial situation and operating results of the Group.

In assessing control, the Group needs to consider: 1) the power of the investor to the investee; 2) the variable return enjoyed by the investee in the relevant activities; and 3) the ability to use the power of the investee to influence the amount of its return. If one or more of the three control elements mentioned above change, the Group will reassess whether control still exists.

In judging whether the Group controls the structured entities, it also needs to consider whether the Group's decision-making behavior is carried out as a principal or as an agent. Considerations usually include the scope of decision-making power of the Group to the structured entities, the substantive rights enjoyed by other parties, the level of remuneration of the Group, and the risk that the Group bears variable returns for holding other interests of the structured entities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

4 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

(1) Income tax

From 1 January 2008, the “Enterprise Income Tax Law of the PRC” and the “Regulations on the Implementation of Enterprise Income Tax Law of the PRC” became effective for the Company and its subsidiaries excluding China Futures Co., Ltd. and China Securities (International) Finance Holding Co., Ltd. Income tax computation and payment are governed by the “Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations” (Public Notice of the State Administration of Taxation [2012] No. 57). The PRC Enterprise income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

The income tax rate for China Securities (International) Finance Holding Co., Ltd. is 16.5%.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

4 TAXATION (Continued)

(2) Value added tax

Pursuant to the “Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the “VAT Pilot Programs”)” (Cai Shui [2016] No.36), the “Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No.46), the “Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions” (Cai Shui [2016] No.70) issued by the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%.

In accordance with the “Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services” (Cai Shui [2016] No.140), the “Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products” (Cai Shui [2017] No.2) and the “Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products” (Cai Shui [2017] No.56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018 as the manager of asset management products.

After the implementation of the VAT Pilot Programs, the Group’s related income is presented at value net of its respective VAT in the consolidated income statement.

- (3) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of VAT payable, respectively. In addition, according to the provisions of “Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing” (Jing Zheng Fa [2011] No.72), since 1 January 2012, the local educational surcharges of the Company’s head office and securities trading department located in Beijing are paid at 2% of the total amount of value-added tax payable.
- (4) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities.

Wealth management segment: serves as a brokerage agent for corporate and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients.

Trading and institutional client services segment: engages in trading of financial products; serves as a brokerage agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialized research and advisory services to assist their investment decision-making.

Asset management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2020					Total
	Investment banking	Wealth management	Trading and institutional client services	Asset management	Others	
Segment revenue and other income						
Fee and commission income	6,179,157	4,247,364	1,899,092	1,298,645	–	13,624,258
Interest income	–	4,024,477	2,370,109	11,698	697,369	7,103,653
Net investment gains	–	–	8,271,822	401,500	–	8,673,322
Other income	4,404	33,204	636	24,179	1,256,469	1,318,892
Total revenue and other income	6,183,561	8,305,045	12,541,659	1,736,022	1,953,838	30,720,125
Segment expenses	(2,411,556)	(6,946,137)	(7,045,294)	(683,829)	(1,519,451)	(18,606,267)
Including: Interest expenses	(17,829)	(1,876,917)	(3,754,409)	(94,574)	(29,203)	(5,772,932)
Credit impairment losses	(2,227)	(1,016,516)	(297,518)	(1,266)	(1,323)	(1,318,850)
Impairment losses on other assets	–	–	–	–	(77,324)	(77,324)
Operating profit	3,772,005	1,358,908	5,496,365	1,052,193	434,387	12,113,858
Share of profits and losses of associates	–	–	–	24	11,841	11,865
Profit before income tax	3,772,005	1,358,908	5,496,365	1,052,217	446,228	12,125,723
Income tax expense						(2,589,038)
Net profit for the year						9,536,685
Total assets	646,094	110,472,132	218,287,289	13,106,537	28,716,091	371,228,143
Total liabilities	1,846,134	103,519,021	182,061,174	9,839,494	5,890,873	303,156,696
Other segment information:						
Depreciation and amortization	170,272	161,573	223,331	54,916	34,058	644,150
Capital expenditure	117,909	113,222	165,496	24,349	11,798	432,774

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Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2019					Total
	Investment banking	Wealth management	Trading and institutional client services	Asset management	Others	
Segment revenue and other income						
Fee and commission income	3,869,173	2,805,793	875,551	1,082,148	–	8,632,665
Interest income	–	3,654,054	1,860,886	28,477	699,630	6,243,047
Net investment gains	–	–	3,807,339	599,171	–	4,406,510
Other income	3,858	52,578	331	22,167	46,238	125,172
Total revenue and other income	3,873,031	6,512,425	6,544,107	1,731,963	745,868	19,407,394
Segment expenses	(1,741,542)	(5,087,210)	(4,507,611)	(606,111)	(303,574)	(12,246,048)
Including: Interest expenses	(13,275)	(1,777,158)	(2,774,316)	(85,489)	(33,668)	(4,683,906)
Credit impairment (losses)/reversals	(5,041)	68,231	(4,469)	–	709	59,430
Operating profit	2,131,489	1,425,215	2,036,496	1,125,852	442,294	7,161,346
Share of profits and losses of associates	–	–	–	(8,378)	772	(7,606)
Profit before income tax	2,131,489	1,425,215	2,036,496	1,117,474	443,066	7,153,740
Income tax expense						(1,624,092)
Net profit for the year						5,529,648
Total assets	15,488,935	87,014,335	139,656,556	12,514,812	30,994,987	285,669,625
Total liabilities	16,183,468	85,453,116	110,649,632	9,039,119	7,449,556	228,774,891
Other segment information:						
Depreciation and amortization	149,436	165,847	160,601	62,815	33,835	572,534
Capital expenditure	75,797	87,787	84,729	25,809	16,144	290,266

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

6 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2020	2019
Investment banking income	6,179,157	3,869,173
Brokerage services income	5,998,602	3,557,079
Asset and fund management income	1,298,645	1,082,148
Others	147,854	124,265
Total	<u>13,624,258</u>	<u>8,632,665</u>

7 INTEREST INCOME

	Year ended 31 December	
	2020	2019
Margin financing and securities lending	2,869,330	1,955,265
Bank deposits	2,116,490	1,801,032
Financial assets at fair value through other comprehensive income	1,309,117	1,259,229
Financial assets held under resale agreements	808,716	1,221,991
Financial assets at amortized costs	–	5,530
Total	<u>7,103,653</u>	<u>6,243,047</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

8 NET INVESTMENT GAINS

	Year ended 31 December	
	2020	2019
Net gains from financial assets at fair value through profit or loss	9,512,034	5,140,331
Net gains from disposal of financial assets at fair value through other comprehensive income	403,282	157,198
Net gains from disposal of financial assets at amortized costs	–	1,088
Dividend income from financial assets at fair value through other comprehensive income	5,320	102,022
Net losses from financial liabilities at fair value through profit or loss	(151,221)	(14,313)
Net losses from derivatives	(754,660)	(472,730)
Net gains attributable to other interest holders of consolidated structured entities	(341,433)	(507,086)
Total	<u>8,673,322</u>	<u>4,406,510</u>

9 OTHER INCOME

	Year ended 31 December	
	2020	2019
Bulk commodity trading income	1,213,145	27,721
Government grants	63,466	50,137
Rental income	16,867	13,790
Gains on disposal of property, plant and equipment	419	334
Net (losses)/gains on foreign exchange	(16,471)	287
Others	41,466	32,903
Total	<u>1,318,892</u>	<u>125,172</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

10 EXPENSES

	Year ended 31 December	
	2020	2019
Fee and commission expenses:		
Brokerage expenses	1,162,281	710,396
Investment banking expenses	322,586	184,525
Others	115,003	112,700
	<u>1,599,870</u>	<u>1,007,621</u>
Interest expenses:		
Bonds in issue	2,390,409	2,478,668
Financial assets sold under repurchase agreements	1,510,855	1,175,727
Placements from banks and other financial institutions	558,405	310,131
Accounts payable to brokerage clients	283,857	178,936
Short-term financing instruments payable	902,619	409,568
Lease liabilities	38,265	39,356
Borrowings	11,987	26,442
Others	76,535	65,078
	<u>5,772,932</u>	<u>4,683,906</u>
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	5,666,241	3,982,057
Staff benefits	487,636	427,119
Contributions to defined contribution schemes (i)	282,419	300,378
	<u>6,436,296</u>	<u>4,709,554</u>
Total		

Notes to the Consolidated Financial Statements (Continued)

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10 EXPENSES (Continued)

(i) Retirement benefits are included, and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to these government-sponsored retirement plans for active employees, which are expensed as incurred. The Group has no obligation for post-retirement benefits beyond these contributions.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Year ended 31 December	
	2020	2019
Cost of bulk commodity trading	1,198,347	27,606
Depreciation and amortization expenses	644,150	572,534
Electronic equipment operating expenses	219,175	159,209
Office operating expenses	169,858	128,333
Postal and communication expenses	135,401	100,647
Business travel expenses	127,899	173,848
Membership fees of exchanges	119,058	89,602
Business entertainment expenses	104,443	105,287
Securities investor protection fund	95,704	60,520
Consulting expenses	85,658	37,133
Auditors' remuneration	5,875	6,450
Including: Audit service	5,442	6,226
Non-audit service	433	224
Others	339,380	344,631
Total	3,244,948	1,805,800

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' REMUNERATION

(1) Details of the directors' and supervisors' remuneration are as follows:

Name	Year ended 31 December 2020				Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Directors' fees	Retirement benefits	
Executive Directors					
Wang Changqing (<i>Chairman</i>)	2,080	2,500	–	223	4,803
Li Geping (<i>President</i>)	1,954	2,500	–	212	4,666
Non-executive Directors					
Yu Zhongfu	–	–	–	–	–
Wang Xiaolin (<i>i</i>)	–	–	–	–	–
Zhang Qin	–	–	–	–	–
Zhu Jia	–	–	–	–	–
Wang Hao	–	–	–	–	–
Wang Bo (<i>ii</i>)	–	–	–	–	–
Xu Gang (<i>iii</i>)	–	–	–	–	–
Independent Non-executive Directors					
Feng Genfu	–	–	245	–	245
Zhu Shengqin	–	–	245	–	245
Dai Deming	–	–	245	–	245
Bai Jianjun	–	–	245	–	245
Liu Qiao	–	–	245	–	245
Supervisors					
Lin Xuan	1,616	2,400	–	201	4,217
Zhao Ming (<i>iv</i>)	1,150	2,300	–	173	3,623
Li Shihua (<i>v</i>)	1,522	2,400	–	204	4,126
Ai Bo	–	–	–	–	–
Zhao Lijun	–	–	–	–	–
Total	8,322	12,100	1,225	1,013	22,660

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration are as follows :
(Continued)

Name	Year ended 31 December 2019				Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Directors' fees	Retirement benefits	
Executive Directors					
Wang Changqing (<i>Chairman</i>)	1,996	1,400	–	117	3,513
Li Geping (<i>President</i>)	1,870	1,400	–	112	3,382
Non-executive Directors					
Yu Zhongfu	–	–	–	–	–
Zhang Qin	–	–	–	–	–
Zhu Jia	–	–	–	–	–
Wang Hao	–	–	–	–	–
Wang Bo (<i>ii</i>)	–	–	–	–	–
Xu Gang (<i>iii</i>)	–	–	–	–	–
Dong Shi (<i>vi</i>)	–	–	–	–	–
Independent Non-executive Directors					
Feng Genfu	–	–	210	–	210
Zhu Shengqin	–	–	210	–	210
Dai Deming	–	–	210	–	210
Bai Jianjun	–	–	210	–	210
Liu Qiao	–	–	210	–	210
Supervisors					
Li Shihua (<i>v</i>)	1,442	1,700	–	95	3,237
Lin Xuan	1,594	1,500	–	91	3,185
Zhao Ming (<i>iv</i>)	794	2,000	–	61	2,855
Lu Ya (<i>vii</i>)	285	–	–	24	309
Ai Bo	–	–	–	–	–
Zhao Lijun	–	–	–	–	–
Total	7,981	8,000	1,050	500	17,531

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration are as follows : (Continued)

Except for the remuneration shown above, directors and supervisors received the following after-tax deferred bonuses in 2020 and 2019:

For the year ended 31 December 2020, Executive Director Wang Changqing received deferred bonuses for the year ended 31 December 2016 of RMB2.09 million, Supervisor Li Shihua received deferred bonuses for the year ended 31 December 2016 of RMB1.93 million, Supervisor Lin Xuan received deferred bonuses for the year ended 31 December 2016 of RMB1.87 million, Supervisor Zhao Ming received deferred bonuses for the year ended 31 December 2016 of RMB1.59 million.

For the year ended 31 December 2019, Executive Director Wang Changqing received deferred bonuses for the year ended 31 December 2015 of RMB1.40 million and for the year ended 31 December 2014 of RMB2.20 million, Supervisor Li Shihua received deferred bonuses for the year ended 31 December 2015 of RMB1.40 million and for the year ended 31 December 2014 of RMB1.71 million, Supervisor Lin Xuan received deferred bonuses for the year ended 31 December 2015 of RMB2.21 million, Supervisor Lu Ya received deferred bonuses for the year ended 31 December 2015 of RMB1.44 million.

For each of the years ended 31 December 2020 and 31 December 2019, no directors and supervisors waived their remuneration. For non-executive directors and supervisors whose pre-tax remuneration were not paid by the Group was shown as zero in tables.

- (i) Wang Xiaolin was appointed as non-executive director in July 2020.
- (ii) Wang Bo resigned as non-executive director in July 2020.
- (iii) Xu Gang resigned as non-executive director in November 2020.
- (iv) Zhao Ming was appointed as supervisor in April 2019.
- (v) Li Shihua resigned as supervisor in December 2020.
- (vi) Dong Shi resigned as non-executive director in November 2019.
- (vii) Lu Ya resigned as supervisor in April 2019.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(2) Other benefits and rights of directors and supervisors

For each of the years ended 31 December 2020 and 31 December 2019, no emoluments were paid by the Group to any of the persons who were directors, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the contributions to social pension schemes and corporate pension schemes, there were no other retirement benefits for directors or supervisors; meanwhile, there were no consideration provided to third parties for making available directors' and supervisors' services.

For each of the years ended 31 December 2020 and 31 December 2019, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly. In addition, the Group did not provide any guarantees or securities to certain controlled body corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

12 FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2020 and 31 December 2019, the five highest paid employees excluded directors and supervisors are as follows:

	Year ended 31 December	
	2020	2019
Salaries, allowances and other benefits	6,775	6,397
Discretionary bonuses	22,950	24,390
Discretionary deferred bonuses	31,020	34,704
Retirement benefits	952	440
Total	61,697	65,931

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

12 FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of these individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December	
	2020	2019
RMB11,000,001 to RMB12,000,000 yuan	1	1
RMB12,000,001 to RMB13,000,000 yuan	4	–
RMB13,000,001 to RMB14,000,000 yuan	–	3
RMB14,000,001 to RMB15,000,000 yuan	–	1
Total	5	5

For the year ended 31 December 2020, the remuneration of these individuals above includes 2016 pre-tax deferred bonus paid in 2020. For the year ended 31 December 2019, the remuneration of these individuals above includes 2014 and 2015 pre-tax deferred bonus paid in 2019.

For each of the years ended 31 December 2020 and 31 December 2019, no remunerations were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 CREDIT IMPAIRMENT LOSSES/(REVERSALS)

	Year ended 31 December	
	2020	2019
Financial assets held under resale agreements	988,921	(22,729)
Financial assets at fair value through other comprehensive income	290,395	17,254
Margin financing	28,025	(53,203)
Financial assets at amortized costs	–	(5,079)
Others	11,509	4,327
Total	1,318,850	(59,430)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

14 INCOME TAX EXPENSE

(1) Income tax

	Year ended 31 December	
	2020	2019
Current income tax		
– Mainland China	2,999,647	1,383,477
– Hong Kong	(23,040)	(14,139)
Subtotal	2,976,607	1,369,338
Deferred income tax	(387,569)	254,754
Total	2,589,038	1,624,092

(2) Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2020	2019
Profit before income tax	12,125,723	7,153,740
Income tax at the PRC statutory income tax rate	3,031,431	1,788,435
Effects of different applicable rates of tax prevailing in various jurisdictions	(29,587)	(3,579)
Non-deductible expenses	18,843	26,721
Non-taxable income	(255,288)	(103,942)
Others	(176,361)	(83,543)
Income tax expenses at the Group's effective income tax rate	2,589,038	1,624,092

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

15 DIVIDENDS

	Year ended 31 December	
	2020	2019
Dividends on ordinary shares proposed and paid	1,796,901	1,376,349
Distribution to other equity instrument holders (Note 16(i))	370,486	371,418

A cash dividend of RMB3.75 (tax inclusive) per 10 ordinary shares related to the year of 2020, amounting to RMB2,909 million (tax inclusive) in total has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

A cash dividend of RMB2.35 (tax inclusive) per 10 ordinary shares related to the year of 2019, amounting to RMB1,797 million (tax inclusive) in total and based on 7,646,385,238 shares was approved at the annual general meeting held on 5 June 2020.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2018, amounting to RMB1,376 million (tax inclusive) in total and based on 7,646,385,238 shares was approved at the annual general meeting held on 25 June 2019.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

16 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share was calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding. The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2020	2019
Earnings:		
Profit attributable to equity holders of the Company	9,509,429	5,501,688
Less: Profit attributable to other equity instrument holders of the Company (i)	<u>(370,486)</u>	<u>(371,418)</u>
Profit attributable to ordinary equity holders of the Company	<u>9,138,943</u>	<u>5,130,270</u>
Shares:		
Weighted average number of ordinary shares in issue (thousand) (Note 44)	<u>7,647,594</u>	<u>7,646,385</u>
Basic and diluted earnings per share (in RMB yuan)	<u>1.20</u>	<u>0.67</u>

There were no dilutive shares during the years ended 31 December 2020 (years ended 31 December 2019: None).

- (i) As of 31 December 2020, there were two tranches of perpetual subordinated bonds existed under the terms and conditions as detailed in Note 45 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, profit attributable to other equity holders was deducted from the profit attributable to ordinary equity holders of the Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

17 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2020	428,063	697,128	36,696	7,475	77,809	8,850	38,286	1,294,307
Increases	322	193,577	370	155	1,803	672	109	197,008
Decreases	(14,624)	(64,678)	(396)	(887)	(2,953)	(823)	(1,336)	(85,697)
31 December 2020	413,761	826,027	36,670	6,743	76,659	8,699	37,059	1,405,618
Accumulated depreciation								
1 January 2020	(134,082)	(504,848)	(33,897)	(5,972)	(72,414)	(7,036)	(32,620)	(790,869)
Increases	(11,266)	(99,583)	(778)	(521)	(3,951)	(613)	(1,838)	(118,550)
Decreases	5,256	64,540	384	860	2,934	796	1,318	76,088
31 December 2020	(140,092)	(539,891)	(34,291)	(5,633)	(73,431)	(6,853)	(33,140)	(833,331)
31 December 2020	273,669	286,136	2,379	1,110	3,228	1,846	3,919	572,287
Cost								
1 January 2019	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
Increases	3,552	154,919	282	574	1,490	450	961	162,228
Decreases	(6,961)	(67,461)	(759)	(769)	(3,727)	(799)	(1,223)	(81,699)
31 December 2019	428,063	697,128	36,696	7,475	77,809	8,850	38,286	1,294,307
Accumulated depreciation								
1 January 2019	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
Increases	(12,593)	(80,745)	(1,517)	(500)	(5,950)	(596)	(1,983)	(103,884)
Decreases	690	67,611	736	746	3,676	754	1,204	75,417
31 December 2019	(134,082)	(504,848)	(33,897)	(5,972)	(72,414)	(7,036)	(32,620)	(790,869)
31 December 2019	293,981	192,280	2,799	1,503	5,395	1,814	5,666	503,438

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

18 RIGHT-OF-USE ASSETS

	Properties and buildings	Others	Total
Cost			
1 January 2020	1,180,831	258,321	1,439,152
Increases	297,717	1,288	299,005
Decreases	(18,904)	(175)	(19,079)
Foreign currency translation differences	(14,521)	–	(14,521)
31 December 2020	<u>1,445,123</u>	<u>259,434</u>	<u>1,704,557</u>
Accumulated depreciation			
1 January 2020	(299,591)	(37,553)	(337,144)
Increases	(348,456)	(37,598)	(386,054)
Decreases	12,027	174	12,201
Foreign currency translation differences	3,114	–	3,114
31 December 2020	<u>(632,906)</u>	<u>(74,977)</u>	<u>(707,883)</u>
Carrying amount			
31 December 2020	<u>812,217</u>	<u>184,457</u>	<u>996,674</u>

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

18 RIGHT-OF-USE ASSETS (Continued)

	Properties and buildings	Others	Total
Cost			
1 January 2019	791,437	257,053	1,048,490
Increases	386,516	1,268	387,784
Decreases	(1,348)	–	(1,348)
Foreign currency translation differences	4,226	–	4,226
31 December 2019	<u>1,180,831</u>	<u>258,321</u>	<u>1,439,152</u>
Accumulated depreciation			
1 January 2019	–	–	–
Increases	(299,964)	(37,553)	(337,517)
Decreases	667	–	667
Foreign currency translation differences	(294)	–	(294)
31 December 2019	<u>(299,591)</u>	<u>(37,553)</u>	<u>(337,144)</u>
Carrying amount			
31 December 2019	<u>881,240</u>	<u>220,768</u>	<u>1,102,008</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

19 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
1 January 2020	542,596	75,948	618,544
Increases	211,692	–	211,692
Decreases	(31,668)	(1,700)	(33,368)
Foreign currency translation differences	(997)	(27)	(1,024)
31 December 2020	<u>721,623</u>	<u>74,221</u>	<u>795,844</u>
Accumulated amortization			
1 January 2020	(313,026)	(69,600)	(382,626)
Increases	(83,856)	–	(83,856)
Decreases	30,616	–	30,616
Foreign currency translation differences	500	–	500
31 December 2020	<u>(365,766)</u>	<u>(69,600)</u>	<u>(435,366)</u>
Net carrying amount			
31 December 2020	<u>355,857</u>	<u>4,621</u>	<u>360,478</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

19 INTANGIBLE ASSETS (Continued)

	Software	Trading seat rights and others	Total
Cost			
1 January 2019	429,994	75,938	505,932
Increases	115,829	–	115,829
Decreases	(3,308)	–	(3,308)
Foreign currency translation differences	81	10	91
31 December 2019	542,596	75,948	618,544
Accumulated amortization			
1 January 2019	(249,417)	(69,600)	(319,017)
Increases	(66,737)	–	(66,737)
Decreases	3,078	–	3,078
Foreign currency translation differences	50	–	50
31 December 2019	(313,026)	(69,600)	(382,626)
Net carrying amount			
31 December 2019	229,570	6,348	235,918

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(In RMB thousands, unless otherwise stated)

20 INVESTMENTS IN SUBSIDIARIES

	31 December 2020	31 December 2019
Investments in subsidiaries	6,528,123	5,333,123

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights		Directly/Indirectly hold	Principal activities
				As at 31 December			
				2020	2019		
China Futures Co., Ltd. (i)	Chongqing	Chongqing	RMB1,000 million	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd. (i)	Beijing	Beijing	RMB1,650 million	100%	100%	Directly	Project investment
China Securities (International) Finance Holding Co., Ltd.	Hong Kong	Hong Kong	Not applicable	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB300 million	55%	55%	Directly	Funds business, asset management
China Securities Investment Co., Ltd. (i)	Beijing	Beijing	RMB6,100 million	100%	100%	Directly	Investment management, equity investment management, investment consultancy and project management

- (i) In 2020, the Company increased capital investment of RMB300 million, RMB150 million and RMB745 million in China Futures Co., Ltd., China Capital Management Co., Ltd. and China Securities Investment Co., Ltd., respectively.
- (ii) China Securities (International) Finance Holding Co., Ltd. is registered as a limited company according to the laws of Hong Kong, China. Others are registered as limited liability companies according to the laws of the People's Republic of China.

Notes to the Consolidated Financial Statements (Continued)

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21 INVESTMENT IN ASSOCIATES

	31 December 2020	31 December 2019
Investments in associates	229,286	269,512

The following table illustrates details of investments in associates:

Name	1 January 2020	Increase	Decrease	Movement using the equity method	Impairment allowance for the current period	31 December 2020
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	118,018	–	–	10,108	(77,324)	50,802
Jiangsu DDBS Environment Remediation Co., Ltd.	45,212	–	–	3,592	–	48,804
Beijing Tinavi Medical Technology Co., Ltd.	20,017	25,224	–	(1,033)	–	44,208
Guangdong South Lead TV & Film Co., Ltd.	27,763	–	–	(571)	–	27,192
Beijing Siban Technology Development Co., Ltd.	–	28,571	–	(2,762)	–	25,809
Zhongguancun Equity Trading Service Group Co., Ltd.	45,824	–	(28,571)	4,504	–	21,757
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	11,426	–	–	(1,967)	–	9,459
Beijing Haifu Capital Management Co., Ltd.	1,252	–	–	3	–	1,255
Total	269,512	53,795	(28,571)	11,874	(77,324)	229,286

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

21 INVESTMENT IN ASSOCIATES (Continued)

Name	1 January 2019	Increase	Decrease	Movement using the equity method	Impairment allowance for the current period	31 December 2019
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	-	116,857	-	1,161	-	118,018
Jiangsu DDBS Environment Remediation Co., Ltd.	44,075	-	-	1,137	-	45,212
Beijing Tinavi Medical Technology Co., Ltd.	23,723	-	-	(3,706)	-	20,017
Guangdong South Lead TV & Film Co., Ltd.	30,000	-	-	(2,237)	-	27,763
Zhongguancun Equity Trading Service Group Co., Ltd.	47,565	-	-	(1,741)	-	45,824
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	15,000	-	-	(3,574)	-	11,426
Beijing Haifu Capital Management Co., Ltd.	1,250	-	-	2	-	1,252
Xinjin Global Industrial Fund LP	1,100	-	(1,100)	-	-	-
Total	162,713	116,857	(1,100)	(8,958)	-	269,512

As at 31 December 2020, the fair value of CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd., an associate of the Group, was lower than its original book value indicating signs of impairment. As a result, an impairment allowance of RMB77.32 million was recorded by the Group (31 December 2019: Nil).

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(In RMB thousands, unless otherwise stated)

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020	31 December 2019
Non-current		
Financial assets at fair value through profit or loss		
Equity investments	3,939,113	3,103,611
Others	2,076,395	192,420
Subtotal	6,015,508	3,296,031
Analyzed into:		
Listed outside Hong Kong	1,574,603	1,141,393
Unlisted	4,440,905	2,154,638
Subtotal	6,015,508	3,296,031
Current		
Financial assets at fair value through profit or loss		
Debt instruments	82,315,132	50,723,715
Equity investments	14,139,675	8,073,044
Fund investments	10,460,975	8,081,851
Others	25,724,358	21,581,292
Subtotal	132,640,140	88,459,902
Analyzed into:		
Listed in Hong Kong	2,356,420	1,768,887
Listed outside Hong Kong	109,195,472	69,129,269
Unlisted	21,088,248	17,561,746
Subtotal	132,640,140	88,459,902
Total	138,655,648	91,755,933

Notes to the Consolidated Financial Statements (Continued)

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22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

As at 31 December 2020, the fair value of financial assets pledged as collateral for repurchase agreements (Note 37), placements from China Securities Finance Corporation Limited (“CSF”) (Note 38), short-term borrowings (Note 40), futures business and securities borrowing business by the Group totaled RMB62,442.75 million (31 December 2019: RMB39,212.31 million).

As at 31 December 2020, financial assets held by the Group included securities lent amounted to RMB2,185.24 million (31 December 2019: RMB624.53 million).

As at 31 December 2020, the fair value of financial assets at fair value through profit or loss in restricted period held by the Group was RMB3,754.15 million (31 December 2019: RMB1,154.27 million).

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020	31 December 2019
Non-current		
Equity instruments (i)	3,225,144	3,153,312
Analyzed into:		
Unlisted	3,225,144	3,153,312
Current		
Debt instruments	44,816,764	32,430,035
Equity instruments	54,948	60,488
Subtotal	44,871,712	32,490,523
Analyzed into:		
Listed in Hong Kong	1,821,858	890,954
Listed outside Hong Kong	43,049,854	31,599,569
Subtotal	44,871,712	32,490,523
Total	48,096,856	35,643,835

- (i) Equity instruments assets at fair value through other comprehensive income are the specific accounts invested by the Company together with several other securities companies and managed by CSF. According to the relevant contracts, risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSF. The Company manages these financial assets for purposes other than to generate investment returns.

As at 31 December 2020, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,225.14 million, respectively (31 December 2019: cost and fair value were RMB3,075.00 million and RMB3,153.31 million, respectively).

- (ii) As at 31 December 2020, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which have been pledged as collateral for repurchase agreements (Note 37), placements from CSF (Note 38), short-term borrowings (Note 40) and securities borrowing business were RMB33,765.93 million (31 December 2019: RMB24,019.91 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	31 December 2020	31 December 2019
Non-current		
Analyzed by collateral:		
Stock	1,353,536	2,512,486
Allowance for impairment losses	(5,219)	(5,210)
Subtotal	1,348,317	2,507,276
Current		
Analyzed by collateral:		
Stock	8,279,045	12,561,744
Debts	7,458,949	6,036,856
Others	111,442	104,549
	15,849,436	18,703,149
Allowance for impairment losses	(1,080,550)	(91,669)
Subtotal	14,768,886	18,611,480
Total	16,117,203	21,118,756

The Group received securities as collateral in connection with financial assets under resale agreements, some of which are allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The fair value of the collateral received in connection with financial assets under resale agreements, the collateral allowed to be re-pledged and the collateral re-pledged were as below:

	31 December 2020	31 December 2019
Collateral received	45,507,600	56,537,257
Including: Collateral allowed to be re-pledged	198,323	187,314
Collateral re-pledged	102,096	83,282

25 REFUNDABLE DEPOSITS

	31 December 2020	31 December 2019
Performance bonds	6,180,363	2,400,221
Trading deposits	2,488,830	362,194
Credit deposits	71,798	31,196
Total	8,740,991	2,793,611

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

26 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax assets and deferred tax liabilities are as follow:

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2020	594,685	13,840	295,637	59,703	963,865
Credited to the consolidated income statement	327,169	85,580	328,011	11,525	752,285
Credited/(debited) to other comprehensive income	–	13,248	–	(3,879)	9,369
31 December 2020	921,854	112,668	623,648	67,349	1,725,519

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2019	529,303	84,035	335,650	25,518	974,506
Credited/(debited) to the consolidated income statement	65,382	(69,378)	(40,064)	33,812	(10,248)
Credited/(debited) to other comprehensive income	–	(817)	51	373	(393)
31 December 2019	594,685	13,840	295,637	59,703	963,865

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

26 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Changes of deferred tax assets and deferred tax liabilities are as follow: (Continued)

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2020	658,549	2,325	660,874
Debited/(credited) to the consolidated income statement	365,651	(935)	364,716
Debited/(credited) to other comprehensive income	<u>39,918</u>	<u>(92)</u>	<u>39,826</u>
31 December 2020	<u>1,064,118</u>	<u>1,298</u>	<u>1,065,416</u>

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2019	331,291	11,351	342,642
Debited/(credited) to the consolidated income statement	253,632	(9,126)	244,506
Debited/(credited) to other comprehensive income	<u>73,626</u>	<u>100</u>	<u>73,726</u>
31 December 2019	<u>658,549</u>	<u>2,325</u>	<u>660,874</u>

27 OTHER NON-CURRENT ASSETS

As at 31 December 2020 and 31 December 2019, other non-current assets of the Group primarily represented long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

28 MARGIN ACCOUNTS

	31 December 2020	31 December 2019
Margin accounts		
– Individuals	41,168,753	26,694,162
– Institutions	<u>6,515,092</u>	<u>2,260,327</u>
	47,683,845	28,954,489
Allowance for impairment losses	<u>(1,168,670)</u>	<u>(1,148,349)</u>
Total	<u>46,515,175</u>	<u>27,806,140</u>

Margin accounts are funds that the Group provided to clients in margin financing business. As at 31 December 2020 and 31 December 2019, no margin accounts were pledged for repurchase agreements (Note 37).

As at 31 December 2020, the fair value of securities lent in margin financing business was RMB8,978.45 million (31 December 2019: RMB1,029.66 million).

As at 31 December 2020, the Group received collateral with fair value amounted to RMB174,926.49 million (31 December 2019: RMB95,680.44 million), in connection with its margin financing business.

Notes to the Consolidated Financial Statements (Continued)

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29 ACCOUNTS RECEIVABLE

	31 December 2020	31 December 2019
Trading deposits for return swaps	6,708,687	1,655,190
Clearing funds receivable	112,199	128,775
Assets management fee receivable	114,178	85,346
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	24,890	24,494
Others	1,069,291	250,033
	8,029,245	2,143,838
Allowance for impairment losses (i)	(11,092)	(6,972)
Total	8,018,153	2,136,866

- (i) ECL on account receivables arising from revenue recognized in accordance with IFRS 15 – Revenue, the Group is measured using simplified approach under IFRS9. ECL on other receivables is measured using the general approach and as at 31 December 2020, account receivables which measured using general approach was classified under Stage 1 (31 December 2019: Stage 1).
- (ii) Analyzed by aging

	As at 31 December 2020			
	Carrying amount		Allowance for impairment losses	
	Value	Percentage	Value	Percentage
Allowance for impairment losses by portfolio				
Less than 1 year	8,014,585	99.82%	(2,277)	20.54%
1 to 2 years	3,555	0.04%	(1,610)	14.51%
2 to 3 years	2,491	0.03%	(1,308)	11.79%
More than 3 years	8,614	0.11%	(5,897)	53.16%
Total	8,029,245	100.00%	(11,092)	100.00%

	As at 31 December 2019			
	Carrying amount		Allowance for impairment losses	
	Value	Percentage	Value	Percentage
Allowance for impairment losses by portfolio				
Less than 1 year	2,126,028	99.17%	(64)	0.91%
1 to 2 years	5,387	0.25%	(1,086)	15.58%
2 to 3 years	11,194	0.52%	(5,822)	83.51%
More than 3 years	1,229	0.06%	–	–
Total	2,143,838	100.00%	(6,972)	100.00%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

30 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2020		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	165,977,744	812	950
Equity derivatives	97,824,331	1,449,975	2,274,318
Credit derivatives	292,000	1,913	2,132
Others	15,729,256	179,509	147,220
Total	279,823,331	1,632,209	2,424,620

	As at 31 December 2019		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	142,900,688	87	391
Equity derivatives	71,142,876	939,568	723,540
Credit derivatives	147,000	622	1,463
Others	5,088,463	15,173	36,178
Total	219,279,027	955,450	761,572

Under the daily settlement arrangement, any gains or losses of the Group's positions in futures contracts, among others, were settled daily and the corresponding payments or receipts were included in "cash and bank balances". Accordingly, the amount of mark-to-market gains or losses of unexpired futures contracts, among others, included in derivative financial instruments above was Nil. As at 31 December 2020, the fair value of the Group's unexpired futures contracts was negative RMB153.85 million (31 December 2019: negative RMB56.12 million).

31 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 34). In Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

32 CASH AND BANK BALANCES

	31 December 2020	31 December 2019
Cash on hand	–	23
Deposits in banks	28,580,085	47,221,032
Total	28,580,085	47,221,055

As at 31 December 2020, the Group had restricted deposits of RMB810.72 million (31 December 2019: RMB278.37 million).

33 OTHER CURRENT ASSETS

	31 December 2020	31 December 2019
Interest receivable (i)	59,059	33,749
Commodity Inventories	15,227	21,789
Prepaid expenses	4,013	12,285
Deferred expenses	3,652	6,981
Dividend receivable	202	–
Others	527,301	254,766
	609,454	329,570
Allowance for impairment losses	(44,762)	(37,855)
Total	564,692	291,715

- (i) As at 31 December 2020 and 31 December 2019, interest income of financial assets accrued under effective interest rate method, which was overdue but not received, was reflected in Interest receivable under other current assets. Interest receivable not yet due were included in the carrying amount of the related financial assets.

34 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Cash Held on Behalf of Clients (Note 31).

Notes to the Consolidated Financial Statements (Continued)

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35 LEASE LIABILITIES

	31 December 2020	31 December 2019
Current		
Lease liabilities	323,956	340,140
Non-current		
Lease liabilities	655,308	735,122
Total	979,264	1,075,262

As at 31 December 2020, the Group's leases committed but not yet commenced were RMB24.56 million (31 December 2019: RMB41.22 million) (Note 53.2).

36 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2020	31 December 2019
Current		
Financial liabilities at fair value through profit or loss (Held for trading)		
– Debt instruments	5,140	518,161
Financial liabilities designated as at fair value through profit or loss		
– Structured notes (i)	342,326	608,183
Subtotal	347,466	1,126,344
Non-current		
Financial liabilities designated as at fair value through profit or loss		
– Structured notes (i)	1,248,263	–
Total	1,595,729	1,126,344

(i) As at 31 December 2020 and 31 December 2019, the structured notes held by the Group were linked to equity indexes.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2020	31 December 2019
Current		
Analyzed by collateral:		
Debt securities (<i>Notes 22 and 23</i>)	68,879,194	43,014,064
Gold	6,033,940	4,612,845
Others (<i>Notes 22</i>)	9,599,105	7,906,066
Total	<u>84,512,239</u>	<u>55,532,975</u>

As at 31 December 2020 and 31 December 2019, other collaterals mainly included the standard bonds for pledge-style quotation-driven repurchase.

38 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2020	31 December 2019
Current		
Placements from banks	–	8,243,359
Placements from CSF (<i>Notes 22 and 23</i>)	9,035,700	1,020,186
Total	<u>9,035,700</u>	<u>9,263,545</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

39 TAXES PAYABLE

	31 December 2020	31 December 2019
Current		
Income tax	938,489	324,807
Value added tax	198,371	151,731
Others	256,566	124,056
Total	<u>1,393,426</u>	<u>600,594</u>

40 SHORT-TERM BORROWINGS

	31 December 2020	31 December 2019
Current		
Analyzed by nature:		
Credit borrowings	87,411	183,287
Mortgage borrowings (Notes 22 and 23)	537,763	705,725
Total	<u>625,174</u>	<u>889,012</u>

As at 31 December 2020, the Group had fixed-rate borrowings which carried interest from 0.50% to 3.00%. As at 31 December 2019, the Group had short-term borrowings which carried interest at HIBOR, LIBOR or SOFR plus a margin.

As at 31 December 2020, the Group held collateral with fair value amounted to RMB634.50 million (31 December 2019: RMB838.71 million), in connection with its short-term borrowings.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	Issue date	Maturity date	Coupon rate	1 January 2020	Increase	Decrease	31 December 2020
Short-term commercial paper							
19 CSC CP006	09/10/2019	08/01/2020	2.88%	4,026,439	2,203	(4,028,642)	-
19 CSC CP007	24/10/2019	22/01/2020	3.02%	4,022,774	6,931	(4,029,705)	-
19 CSC CP008	11/12/2019	06/03/2020	3.05%	4,007,000	21,667	(4,028,667)	-
20 CSC CP001	06/01/2020	03/04/2020	2.79%	-	4,026,833	(4,026,833)	-
20 CSC CP002	20/01/2020	17/04/2020	2.79%	-	4,026,833	(4,026,833)	-
20 CSC CP003	19/02/2020	12/05/2020	2.52%	-	4,022,859	(4,022,859)	-
20 CSC CP004	04/03/2020	03/06/2020	2.42%	-	4,024,134	(4,024,134)	-
20 CSC CP005	07/04/2020	24/06/2020	1.50%	-	4,012,822	(4,012,822)	-
20 CSC CP006	21/04/2020	17/07/2020	1.38%	-	4,013,157	(4,013,157)	-
20 CSC CP007	08/05/2020	06/08/2020	1.55%	-	4,517,199	(4,517,199)	-
20 CSC CP008	02/06/2020	28/08/2020	1.58%	-	4,015,064	(4,015,064)	-
20 CSC CP009	22/06/2020	18/09/2020	2.20%	-	4,021,216	(4,021,216)	-
20 CSC CP010	17/07/2020	16/10/2020	2.55%	-	4,025,430	(4,025,430)	-
20 CSC CP011	04/08/2020	03/11/2020	2.60%	-	4,025,929	(4,025,929)	-
20 CSC CP012	03/09/2020	27/11/2020	2.70%	-	4,025,151	(4,025,151)	-
20 CSC CP013	22/09/2020	18/12/2020	2.70%	-	4,025,742	(4,025,742)	-
20 CSC CP014	14/10/2020	13/01/2021	2.69%	-	4,023,289	-	4,023,289
20 CSC CP015	03/11/2020	29/01/2021	3.12%	-	4,522,695	-	4,522,695
20 CSC CP016	26/11/2020	25/02/2021	3.35%	-	4,013,216	-	4,013,216
20 CSC CP017	16/12/2020	17/03/2021	2.80%	-	3,504,296	-	3,504,296
Short-term corporate bond							
20 Xintou S2	28/07/2020	28/07/2021	2.90%	-	1,520,553	(4,259)	1,516,294
Structured notes ⁽ⁱ⁾				5,439,740	66,080,415	(46,803,901)	24,716,254
Total				17,495,953	136,477,634	(111,677,543)	42,296,044

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(In RMB thousands, unless otherwise stated)

41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE (Continued)

Name	Issue date	Maturity date	Coupon rate	1 January 2019	Increase	Decrease	31 December 2019
Short-term corporate bonds							
18 CSC D1	12/02/2018	28/01/2019	5.34%	3,046,921	574	(3,047,495)	-
18 CSC D2	14/05/2018	24/04/2019	4.70%	2,982,426	37,817	(3,020,243)	-
Short-term commercial paper							
19 CSC CP001	25/04/2019	24/07/2019	3.00%	-	3,016,521	(3,016,521)	-
19 CSC CP002	24/05/2019	22/08/2019	2.99%	-	3,016,957	(3,016,957)	-
19 CSC CP003	14/06/2019	12/09/2019	3.06%	-	3,019,869	(3,019,869)	-
19 CSC CP004	12/07/2019	10/10/2019	2.70%	-	3,017,975	(3,017,975)	-
19 CSC CP005	16/09/2019	13/12/2019	2.75%	-	4,026,448	(4,026,448)	-
19 CSC CP006	09/10/2019	08/01/2020	2.88%	-	4,026,439	-	4,026,439
19 CSC CP007	24/10/2019	22/01/2020	3.02%	-	4,022,774	-	4,022,774
19 CSC CP008	11/12/2019	06/03/2020	3.05%	-	4,007,000	-	4,007,000
Structured notes (i)				7,724,359	25,065,979	(27,350,598)	5,439,740
Total				13,753,706	53,258,353	(49,516,106)	17,495,953

As at 31 December 2020 and 31 December 2019, there were no defaults related to any short-term financing instruments payable by the Group.

As at 31 December 2020 and 31 December 2019, the interests of short-term financing instruments payable measured by the effective interest rate method were included in the carrying amount of the related financial instruments, which amounted to RMB258.13 million and RMB71.32 million, respectively.

- (i) As at 31 December 2020 and 31 December 2019, the structured notes issued by the Group are calculated at a fixed annual interest rate or a fixed plus floating interest rate. The fixed interest rate ranges are 2.10%-4.00% and 2.70%-3.70%, respectively.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020
(In RMB thousands, unless otherwise stated)

42 OTHER CURRENT LIABILITIES

	31 December 2020	31 December 2019
Bonds in issue with maturity within one year (1)	15,304,192	22,751,549
Amounts due to other holders of consolidated structured entities at fair value	6,003,742	6,885,486
Trading deposits for return swaps	4,611,335	2,343,033
Salaries, bonuses and allowances payable	3,947,967	2,703,648
Futures settlement risk funds payable	111,404	92,583
Dividends payable (Note 15 and 45)	225,404	371,418
Settlement deposits payable	439,153	372,652
Accounts payable to underwriting clients	75,871	15,069,150
Provision	66,403	54,197
Funds payable to securities holders	5,997	6,047
Securities investor protection fund payable	53,278	34,346
Others	3,652,897	1,915,608
Total	34,497,643	52,599,717

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

42 OTHER CURRENT LIABILITIES (Continued)

- (1) Bonds in issue with maturity within one year as at 31 December 2020 and 31 December 2019 were as follows:

		31 December 2020	31 December 2019
15 Xintou 01	(i)	–	1,828,260
CSCI FN15 B2009	(ii)	–	1,404,677
17 Xintou G1	(iii)	–	4,124,345
17 Xintou G2	(iv)	–	3,090,134
17 Xintou F1	(v)	–	5,104,367
17 Xintou F2	(vi)	–	3,024,929
18 Xintou F1	(vii)	–	4,172,538
18 Xintou F2	(viii)	4,144,105	–
18 Xintou F3	(ix)	3,578,358	–
18 Xintou F4	(x)	2,551,271	–
18 Xintou C1	(xi)	5,030,184	–
Structured notes	(xii)	274	2,299
Total		15,304,192	22,751,549

- (i) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed. The bond was fully redeemed in August 2020.
- (ii) In September 2015, the Company's subsidiary CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by another subsidiary of the Company China Securities (International) Finance Holding Co., Ltd. The bond was fully redeemed in September 2020.
- (iii) In April 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 4.48% per annum and is not guaranteed. The bond was fully redeemed in April 2020.
- (iv) In May 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 4.88% per annum and is not guaranteed. The bond was fully redeemed in May 2020.
- (v) In July 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 4.74% per annum and is not guaranteed. The bond was fully redeemed in July 2020.

Notes to the Consolidated Financial Statements (Continued)

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42 OTHER CURRENT LIABILITIES (Continued)

- (1) Bonds in issue with maturity within one year as at 31 December 2020 and 31 December 2019 were as follows: (Continued)
- (vi) In October 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 5.07% per annum and is not guaranteed. The bond was fully redeemed in October 2020.
 - (vii) In March 2018, the Company privately issued a 2-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.43% per annum and is not guaranteed. The bond was fully redeemed in March 2020.
 - (viii) In April 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.12% per annum and is not guaranteed.
 - (ix) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.
 - (x) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.
 - (xi) In November 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 4.38% per annum and is not guaranteed.
 - (xii) As at 31 December 2020, the Company had structured notes named "Gushouxin series" amounted to RMB0.27 million, which accrue interests at a fixed annual rate in the range of 3.00%~3.10%, and all of which have remaining tenure less than one year (31 December 2019: RMB2.35 million with a fixed annual interest rate in the range of 3.10%~3.70%; the amount of the remaining tenure less than one year: RMB2.30 million). The principal and interest of these structured notes are payable at maturity and are not guaranteed.

43 BONDS IN ISSUE

	31 December 2020	31 December 2019
Subordinated bonds in issue	25,937,038	19,942,512
Corporate bonds in issue	20,023,181	10,135,228
Financial bonds in issue	4,056,088	4,055,229
Structured notes in issue	—	52
Total	50,016,307	34,133,021

- (1) As at 31 December 2020 and 31 December 2019, there were no defaults related to any bonds in issue.

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(In RMB thousands, unless otherwise stated)

43 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue

		31 December 2020	31 December 2019
Corporate bonds			
18 Xintou F2	42(1) (viii)	–	4,097,300
18 Xintou F3	42(1) (ix)	–	3,511,197
18 Xintou F4	42(1) (x)	–	2,526,731
20 Xintou G1	(i)	5,098,259	–
20 Xintou G2	(ii)	1,020,559	–
20 Xintou G3	(iii)	3,041,844	–
20 Xintou G4	(iv)	3,038,641	–
20 Xintou G5	(v)	4,553,500	–
CSCIF A N2508	(vi)	3,270,378	–
Subtotal		20,023,181	10,135,228
Subordinated bonds			
18 Xintou C1	42(1) (xi)	–	5,026,758
19 Xintou C1	(vii)	5,699,084	5,690,575
19 Xintou C2	(viii)	5,140,324	5,133,607
19 Xintou C3	(ix)	4,096,928	4,091,572
20 Xintou C1	(x)	4,004,909	–
20 Xintou C2	(xi)	1,000,725	–
20 Xintou C3	(xii)	4,996,249	–
20 Xintou C4	(xiii)	998,819	–
Subtotal		25,937,038	19,942,512
Financial Bonds			
19 CSC Financial Bond 01	(xiv)	4,056,088	4,055,229
Structured notes	42(1) (xii)	–	52
Carrying amount		50,016,307	34,133,021

Notes to the Consolidated Financial Statements (Continued)

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43 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

- (i) In March 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 2.94% per annum and is not guaranteed.
- (ii) In March 2020, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1 billion. The bond pays interest annually at 3.13% per annum and is not guaranteed.
- (iii) In April 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 2.56% per annum and is not guaranteed.
- (iv) In July 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 3.55% per annum and is not guaranteed.
- (v) In July 2020, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4.5 billion. The bond pays interest annually at 3.46% per annum and is not guaranteed.
- (vi) In August 2020, CSCIF Asia Limited, an indirect wholly owned subsidiary of the Company, issued a 5-year medium-term note with a face value of USD0.5 billion million and an annual interest rate of 1.75%. The note pays interest every six months, and is guaranteed unconditionally and irrevocably by CSC Financial Co., Ltd.
- (vii) In January 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.
- (viii) In April 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (ix) In May 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB4 billion. The bond pays interest annually at 4.12% per annum and is not guaranteed.
- (x) In November 2020, the Company publicly issued a 457-day fixed rate subordinated bond with a face value of RMB4 billion. The bond accrues interest at 3.90% per year and is not guaranteed.
- (xi) In November 2020, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (xii) In December 2020, the Company publicly issued a 455-days fixed rate subordinated bond with a face value of RMB5 billion. The bond accrues interest at 3.84% per year and is not guaranteed.
- (xiii) In December 2020, the Company publicly issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion. The bond pays interest annually at 4.18% per annum and is not guaranteed.
- (xiv) In August 2019, the Company publicly issued a 3-year fixed rate financial bond with a face value of RMB4 billion. The bond pays interest annually at 3.52% per annum and is not guaranteed.

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44 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2020	31 December 2019
Issued and fully paid ordinary shares of RMB1 each (<i>in thousands</i>)		
– A shares	6,495,671	6,385,361
– H shares	1,261,024	1,261,024
Total	<u>7,756,695</u>	<u>7,646,385</u>

The Company completed the registration procedure for its non-public offering of A-shares in the Shanghai branch of China Securities Depository and Clearing Co., Ltd. on 28 December 2020. The Company issued a total of 110,309,559 shares with a nominal value of RMB1 per share.

45 OTHER EQUITY INSTRUMENTS

Other equity instruments of the Group are as follows :

- In January 2015, the Company issued the first tranche of perpetual subordinated bonds of 2015 amounted to RMB2 billion. The bond was fully redeemed in January 2020.
- In March 2015, the Company issued the second tranche of perpetual subordinated bonds of 2015 amounted to RMB3 billion. The bond was fully redeemed in March 2020.
- In August 2019, the Company issued the first tranche of perpetual subordinated bonds of 2019 amounted to RMB5 billion.
- In March 2020, the Company issued the first tranche of perpetual subordinated bonds of 2020 amounted to RMB5 billion.

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45 OTHER EQUITY INSTRUMENTS (Continued)

Key terms and conditions relating to the equity instruments that exist at the end of the year are as follows:

- The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;
- The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;
- The Company has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary equity holders and reductions of registered capital;
- The priority over repayment of the 2019 and the 2020 perpetual subordinated bond is subordinated to the Company's general debts and other subordinated debt, unless in the event of liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position. As at 31 December 2020, the interest payable of perpetual subordinated bonds was RMB225 million (Note 42). As at 31 December 2019, the interest payable of perpetual subordinated bonds was RMB371 million (Note 42), which was paid in 2020.

46 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

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46 RESERVES (Continued)

(2) Surplus reserves

(i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalization is not less than 25% of the registered capital immediately before capitalization.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards for Business Enterprises, to its discretionary surplus reserve upon approval by the ordinary equity holders in Annual General Meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

(3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its profit for the year for the general risk reserve and 10% for the transaction risk reserve (Note 3.1(23)). Regulatory reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income.

(5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

Notes to the Consolidated Financial Statements (Continued)

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47 CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Cash and bank balances	28,580,085	47,221,055
Less: Restricted deposits (Note 32)	(810,715)	(278,373)
Interest receivable	(3,871)	(7,114)
Cash and cash equivalents	<u>27,765,499</u>	<u>46,935,568</u>

48 INTERESTS IN STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them.

(1) Structured entities included in consolidated financial statements

Considering that the Company acts as either the investment manager for the structured entities, or as principal in investing in the subordinated tranches or all of the shares issued by the structured entities, bearing most or all the risk of the products and obtaining most or all of the variable returns, the Group therefore consolidated these structured entities in its consolidated financial statements.

As at 31 December 2020 and 31 December 2019, total assets of consolidated structured entities, the Group's investments and maximum exposure arising from its investments in consolidated structured entities are as follows:

	31 December 2020	31 December 2019
Total assets	9,351,905	9,051,141
Investments	2,874,197	2,959,775
Maximum exposure	<u>2,860,743</u>	<u>3,014,723</u>

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48 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities

(i) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group primarily include asset management plans and investment funds sponsored by the Group. As the manager of these structured entities, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each structured entity. The interests held by the Group in these unconsolidated structured entities primarily include investments held directly and/or management fees, commission and performance fee earned from managed structured entities. The Group concluded that it acted as an agent rather than a principal based on its assessment of the variable return derived from these structured entities. Therefore, these structured entities are not consolidated by the Group.

For the year ended 31 December 2020, the Group earned management fee, commission and performance fee amounted to RMB967.71 million (31 December 2019: RMB894.57 million) from these unconsolidated structured entities sponsored by the Group, for which the Group held no interest in during and as at the end of the reporting year.

As at 31 December 2020 and 31 December 2019, the maximum exposure and the carrying amount of relevant balance sheet items of the Group arising from these unconsolidated structured entities, for which the Group held interests in as at the end of the reporting year, were set out as below:

	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss		
– Carrying amount	4,232,618	2,405,675
– Maximum exposure	4,285,686	2,430,393

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48 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities (Continued)

(ii) Structured entities sponsored by third party financial institutions

As at 31 December 2020 and 31 December 2019, the amount of maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities sponsored by third party financial institutions were equal, which set out as below:

	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss	34,863,966	28,270,622

49 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase transactions. The counterparties are allowed to re-pledge those securities sold under repurchase transactions in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return part of collateral or be required to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them. A financial liability is recognized for cash received.

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49 TRANSFERRED FINANCIAL ASSETS (Continued)

Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances be required to return part of collateral or require counterparties to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2020	31 December 2019
Carrying amount of transferred assets		
– Securities lending	2,185,237	624,531
– Financial assets sold under repurchase agreements	–	1,155,843
Total	<u>2,185,237</u>	<u>1,780,374</u>
Carrying amount of related liabilities		
– Financial assets sold under repurchase agreements	–	1,059,736

Notes to the Consolidated Financial Statements (Continued)

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50 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	31 December 2020	31 December 2019
Contracted, but not provided for	29,669	2,572

The above-mentioned capital commitments are primarily in respect of the equity investment, purchase of equipment and decoration of properties by the Group.

(2) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 31 December 2020 and 31 December 2019, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

51 RELATED PARTY DISCLOSURES

(1) Beijing State-owned Capital Operation and Management Center

As at 31 December 2019, Beijing State-Owned Capital Operation and Management Center (“Beijing State Management Center”) owned 35.11% of the equity interest of the Company.

Beijing State Management Center was established by State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality, which is a People-owned enterprise controlled by the PRC government.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(1) Beijing State-owned Capital Operation and Management Center (Continued)

The transactions between Beijing State Management Center and the Group are in the ordinary course of business under normal commercial terms and conditions. Corresponding transactions and balances with this institution were as follows:

	Eleven months ended 30 November 2020	Year ended 31 December 2019
Fee and commission income	940	14,667
Interest expense	(22)	(20)

In January 2020, the Company received a notice from the original largest shareholder, Beijing State Management Center, who intended to transfer all of its holding of 2,684,309,017 A-shares, representing 35.11% of the total share capital of the Company, to Beijing Financial Holdings Group Co., Ltd. (“Beijing Financial Holdings Group”) for nil consideration (“Transfer”). In March 2020, Beijing State Management Center and Beijing Financial Holdings Group signed the Agreement on the Transfer. The Transfer has been approved by State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality in March 2020 and approved by CSRC in October 2020, respectively. The Transfer registration has been completed on 30 November 2020.

After the completion of the Transfer, Beijing State Management Center no longer holds any shares in the Company and Beijing Financial Holdings Group directly holds 2,684,309,017 A-shares, representing 35.11% of the total share capital of the Company, making it the largest shareholder of the Company. The Transfer has no impacts on the Company’s non-controlling shareholders and the status that the Company has no actual controlling person.

Notes to the Consolidated Financial Statements (Continued)

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51 RELATED PARTY DISCLOSURES (Continued)

(2) Beijing Financial Holdings Group and companies under Beijing Financial Holdings Group

As a result of the Company's non-public offering of A-shares in December 2020, the percentage of shareholding of Beijing Financial Holdings Group has declined passively. As at 31 December 2020, Beijing Financial Holdings Group owned 34.61% of the equity interest of the Company.

Beijing Financial Holdings Group was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is an integrated financial investment holding platform and managed as a municipal level I enterprise.

The Group enters into transactions with Beijing Financial Holdings Group and companies under it in the ordinary course of business under normal commercial terms. In December 2020, the Group had no related-party transactions with Beijing Financial Holdings Group and companies under it.

(3) Central Huijin and companies under Central Huijin

As at 31 December 2020, Central Huijin Investment Limited ("Central Huijin") owned 30.76% of the equity interest of the Company (31 December 2019: 31.21%).

Central Huijin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the China State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the PRC government.

Notes to the Consolidated Financial Statements (Continued)

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51 RELATED PARTY DISCLOSURES (Continued)

(3) Central Huijin and companies under Central Huijin (Continued)

The Group enters into transactions with Central Huijin and companies under it in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Year ended 31 December	
	2020	2019
Fee and commission income	73,797	106,132
Interest income	348,892	242,334
Other income	2,888	–
Fee and commission expenses	(108,902)	(73,930)
Interest expense	(138,635)	(104,668)
Other operating expenses and costs	(547)	–

	31 December	31 December
	2020	2019
Assets		
Financial assets at fair value through other comprehensive income	1,167,141	277,987
Financial assets at fair value through profit or loss	2,645,946	1,089,795
Derivative financial assets	16,525	60,067
Cash held on behalf of client	8,359,056	7,841,551
Cash and bank balances	2,883,531	1,681,302
Accounts receivable	31,916	35,405
Right of use assets	900	2,390
Liabilities		
Accounts payable to brokerage clients	17,430	4,907
Derivative financial liabilities	82,732	15,156
Financial assets sold under repurchase agreements	4,146,840	500,642
Short-term borrowings	–	89,598
Other current liabilities	77,513	118,556
Lease liabilities	849	2,387

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(4) Government related entities

According to the provisions of IAS 24 – Related Parties Disclosures, government entities controlled and jointly controlled by the PRC government and their subsidiaries (the “government related entities”) are also regarded as related parties of the Group.

Part of the Group’s transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities.

Directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

(5) Other major shareholders and its related parties

The Group’s major transactions and balances with other major shareholders and its related parties were as follows:

	Year ended 31 December	
	2020	2019
Fee and commission income	23,956	107,407
Interest income	91,628	62,760
Fee and commission expenses	(45,012)	(37,158)
Interest expense	(14,789)	(47,477)
Other operating expenses and costs	(3,793)	–

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51 RELATED PARTY DISCLOSURES (Continued)

(5) Other major shareholders and its related parties (Continued)

	31 December 2020	31 December 2019
Assets		
Financial assets at fair value through other comprehensive income	518,466	260,516
Financial assets at fair value through profit or loss	237,674	117,375
Derivative financial assets	790	6,229
Cash held on behalf of client	8,425,770	2,925,033
Cash and bank balance	719,343	623,182
Accounts receivable	18,051	10,527
Liabilities		
Accounts payable to brokerage clients	603,806	33,766
Derivative financial liabilities	15,262	16,774
Financial assets sold under repurchase agreements	1,388,121	579,585
Other current liabilities	20,507	26,507

(6) The Group's associates

The Group entered into transactions with its associates at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associates are not significant.

(7) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

Notes to the Consolidated Financial Statements (Continued)

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51 RELATED PARTY DISCLOSURES (Continued)

(7) Key management personnel (Continued)

The Group's remuneration paid for key management personnel is disclosed as follow:

	Year ended 31 December	
	2020	2019
Salaries, bonuses and allowances	141,704	134,968
Staff benefits	1,332	1,296
Contributions to defined contribution schemes	3,730	1,641
Total	146,766	137,905

For the year ended 31 December 2020, the remuneration of these individuals above includes 2016 pre-tax deferred bonus paid in 2020. For the year ended 31 December 2019, the remuneration of these individuals above includes 2014 and 2015 pre-tax deferred bonus paid in 2019.

52 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: where the inputs are observable for the assets and liabilities, either directly or indirectly, other than quoted prices in Level 1.

Level 3: where the inputs are unobservable inputs for relevant assets or liabilities.

Notes to the Consolidated Financial Statements (Continued)

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include, among others, underlying securities prices, interest rates, foreign exchange rates, volatilities, which are all observable and available from an active market.

For certain unlisted equity securities (private equity securities), thinly traded equity securities, subordinated tranche of asset-backed securities, certain over-the-counter derivative contracts and trust plans, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used primarily include discount cash flow model, option pricing model and comparable companies methods, etc. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable parameters that may have impacts on the valuation include, among others, weighted average cost of capital, liquidity discount, price to book ratio and volatility of underlying assets. As at 31 December 2020 and 31 December 2019, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

Notes to the Consolidated Financial Statements (Continued)

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt instruments	9,251,365	73,041,875	21,892	82,315,132
– Equity investments	13,741,958	1,717,204	2,619,626	18,078,788
– Fund investments	6,463,824	3,996,984	167	10,460,975
– Others	5,000	25,387,384	2,408,369	27,800,753
Subtotal	29,462,147	104,143,447	5,050,054	138,655,648
Derivative financial assets	323,043	970,900	338,266	1,632,209
Financial assets at fair value through other comprehensive income				
– Debt instruments	1,966,454	42,847,816	2,494	44,816,764
– Equity instruments	54,948	3,225,144	–	3,280,092
Subtotal	2,021,402	46,072,960	2,494	48,096,856
Total assets	31,806,592	151,187,307	5,390,814	188,384,713
Financial liabilities at fair value through profit or loss				
– Financial liabilities held for trading	–	5,140	–	5,140
– Financial liabilities designated as at fair value through profit or loss	–	–	1,590,589	1,590,589
Subtotal	–	5,140	1,590,589	1,595,729
Derivative financial liabilities	300,745	779,006	1,344,869	2,424,620
Total liabilities	300,745	784,146	2,935,458	4,020,349

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

	31 December 2019			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
– Debt instruments	5,559,555	45,155,332	8,828	50,723,715
– Equity investments	8,500,768	157,020	2,518,867	11,176,655
– Fund investments	5,439,702	2,642,149	–	8,081,851
– Others	–	20,088,269	1,685,443	21,773,712
Subtotal	19,500,025	68,042,770	4,213,138	91,755,933
Derivative financial assets	65,015	714,681	175,754	955,450
Financial assets at fair value through other comprehensive income				
– Debt instruments	830,466	31,597,072	2,497	32,430,035
– Equity instruments	60,488	3,153,312	–	3,213,800
Subtotal	890,954	34,750,384	2,497	35,643,835
Total assets	20,455,994	103,507,835	4,391,389	128,355,218
Financial liabilities at fair value through profit or loss				
– Financial liabilities held for trading	–	518,161	–	518,161
– Financial liabilities designated as at fair value through profit or loss	–	–	608,183	608,183
Subtotal	–	518,161	608,183	1,126,344
Derivative financial liabilities	66,622	308,662	386,288	761,572
Total liabilities	66,622	826,823	994,471	1,887,916

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value in each year are as follow:

	Year ended 31 December 2020				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2020	4,213,138	2,497	175,754	608,183	386,288
Total gains or losses for the year	196,041	–	346,861	139,360	1,218,720
Total gains recorded in other comprehensive income	–	(1,010)	–	–	–
Increases	3,185,327	–	158,373	2,839,308	598,791
Decreases	(2,007,952)	–	(342,722)	(1,996,262)	(858,930)
Transfers to Level 3 from Level 1	32,239	–	–	–	–
Transfers to Level 3 from Level 2	114,934	1,007	–	–	–
Transfers to Level 1 from Level 3	(233,305)	–	–	–	–
Transfers to Level 2 from Level 3	(450,368)	–	–	–	–
31 December 2020	<u>5,050,054</u>	<u>2,494</u>	<u>338,266</u>	<u>1,590,589</u>	<u>1,344,869</u>
Gains or losses for the year included in profit or loss for assets/liabilities held at the end of the year	<u>196,041</u>	<u>–</u>	<u>346,861</u>	<u>(139,360)</u>	<u>(1,218,720)</u>

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value (Continued)

Movements in Level 3 financial instruments measured at fair value in each year are as follow: (Continued)

	Year ended 31 December 2019				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2019	3,847,796	–	861,154	–	43,699
Total gains or losses for the year	220,853	–	(386,514)	4,041	219,286
Total gains recorded in other comprehensive income	–	(12,285)	–	–	–
Increases	1,916,099	–	367,493	604,142	902,124
Decreases	(1,878,024)	–	(666,379)	–	(778,821)
Transfers to Level 3 from Level 1	8,682	11,079	–	–	–
Transfers to Level 3 from Level 2	97,732	3,703	–	–	–
31 December 2019	<u>4,213,138</u>	<u>2,497</u>	<u>175,754</u>	<u>608,183</u>	<u>386,288</u>
Gains or losses for the year included in profit or loss for assets/liabilities held at the end of the year	220,853	–	(386,514)	(4,041)	(219,286)

Notes to the Consolidated Financial Statements (Continued)

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(3) Important unobservable input value in fair value measurement of Level 3

The fair value of financial instruments under Level 3 are primarily determined by discounted cash flow model, option pricing model and comparable companies methods, etc. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs which mainly include weighted average cost of capital, liquidity discount, price to book ratio, volatility of underlying assets and others to the overall fair value measurement.

(4) Transfers between Level 1 and Level 2

During the year ended 31 December 2020, the amount of financial assets at fair value through profit and loss from Level 1 to Level 2 were RMB459.41 million and the amount of financial assets at fair value through profit and loss from Level 2 to Level 1 were RMB7.53 million.

During the year ended 31 December 2019, the amount of financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income transferred from Level 1 to Level 2 were RMB40.86 million and RMB9.95 million, respectively

(5) Financial assets and financial liabilities not measured at fair value

The information below summarizes the carrying amounts and fair values of those financial assets and liabilities not measured at fair value in the consolidated statement of financial position. As at 31 December 2020 and 31 December 2019, financial assets and financial liabilities for which the carrying amounts approximate fair value, including financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, lease liabilities, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable are not listed in the table below.

Notes to the Consolidated Financial Statements (Continued)

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(5) Financial assets and financial liabilities not measured at fair value (Continued)

As at 31 December 2020 and 31 December 2019, the carrying amounts and fair value of bonds in issue (including bonds in issue with maturity within one year) are summarized below:

	31 December 2020	31 December 2019
Bonds in issue (including bonds in issue with maturity within one year)		
– Carrying amount (Notes 42 and 43)	65,320,499	56,884,570
– Fair value	65,557,195	57,441,093

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk and liquidity risk and operational risk.

The Company's risk management and control system is not significantly changed compared to 31 December 2019.

Structure of risk management

The Board

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

Notes to the Consolidated Financial Statements (Continued)

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

The Board (Continued)

The Board of Directors is the Company's highest decision-making body in risk management, which makes decisions with respect to the Company's overall risk management strategies and policies, internal control arrangements, and actions to address material risks faced by the Company, among other things.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the associated risks are adequately managed so that risk management activities can be effectively carried out through the Company's business and operating activities. The Board's Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

The Operation Management

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

The Company Risk Management Committee of the Executives Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports and routine compliance risk reports; and formulating risk control strategies and plans for material business matters.

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

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (continued)

The Department, Branch and Subsidiary

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

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

In addition, pursuant to the needs of risk management in investment banking business, aligned with the regulatory requirements, the Company has established the internal review department. Through such review at the firm level, the Company conducts final risk control prior to the delivery of investment banking projects, and assumes the decision making responsibility of the ultimate approval of materials and documents to be submitted, reported, issued or disclosed in the name of the Company.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk management activities

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk management activities (Continued)

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

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

Risk analysis and control

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built integrated control system and information technology systems to continuously monitor these risks.

Notes to the Consolidated Financial Statements (Continued)

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk

Credit risks refer to the risks of an economic loss caused by the failure of customers, counterparties or issuers of debt financing instruments (also referred to as financiers) to perform their contractual obligations.

Credit risks of the Company relating to the securities financing business, which includes margin financing and stock pledge repurchase agreement, are primarily attributed to a decline in value, or insufficient liquidity of collateral provided by customers; customers' failure to repay debts in full in a timely manner due to legal disputes over collateral assets; and operational misconducts including fraudulent credit information, violation of contracts and regulatory requirements. Control over credit risks for the securities financing business is managed primarily through risk management education programs for customers, credit due diligence and verification of customers, risk assessment on collateralized (pledged) securities, setup of trading limits, daily mark to market of exposure, issuing risk notification to customers, margin calls, forced position liquidation and legal recourse. The Company performs an assessment of the need for any allowance for impairment in accordance with the ECL model of the accounting standards of IFRS 9, and actively carries out debt recovery activities for defaulting customers.

Credit risk relating to bond investments is primarily due to the decline in the creditworthiness of credit issuer of the debt financing instruments or defaults, counterparty defaults. The Company carries out due diligence for issuers and counterparties, establishes internal ratings for issuers, debts and counterparties, manages the access and size of transactions according to the internal and external rating, and controls credit risk using other tools for subsequent monitoring and management. In 2020, the Company further tightened the quality of its investment portfolio, strengthened due diligence of investment targets and counterparties and credit risk management measures to improve the capability of credit risk management, default losses were at low level.

The Company controls credit risks relating to over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits on the size of transactions and related credit risk exposures before transactions can take place. The Company monitors and controls credit risk exposure of counterparties within established limits by adopting mark-to-market practices of derivative transactions and related collateral as well as forced position liquidating procedures.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to prevent non-compliant financing operations for clients. In addition, for repurchase agreement transaction, through due diligence, establishment of reasonable customer limits and haircut on collateral bonds, setting standards for minimum collateral level of qualified securities and leverage ratios, concentration limits for single securities used as collateral and other measures, the Company prevents customer under-collateralisation. For option transactions, the Company takes measures including margin deposit management, limits setting and forced liquidation control to manage customers' credit risk.

Furthermore, the Company's Risk Management Department monitors credit risk on an ongoing basis, including monitoring the total amount of credit transactions and credit exposures of the same customer, tracking the qualifying credit status of counterparties and bond issuers, monitoring the collateral coverage of securities and financial business, requiring the business department to fulfill its post-investment management duties, as well as using stress testing and sensitivity analysis, amongst other techniques, to measure the credit risk of major business lines.

Expected credit loss measurement

The measurement of the ECL allowance for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, is an area that requires the use of models and assumptions about the future economic conditions and credit behavior of the clients (such as the likelihood of customers defaulting and the resulting losses).

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

The Group has applied a “three-stage” impairment model for ECL measurement based on changes in credit quality since the initial recognition of financial assets as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified as “Stage 1” and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk (“SICR”) since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL. Stage 2 and Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. The Group has measured the loss allowance for these financial instruments at an amount equal to the lifetime ECL.

For financial assets applied ECL measurement and classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). For credit-impaired financial assets classified under Stage 3, management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

The measurement of ECL adopted by the management according to IFRS 9, involves judgements, assumptions and estimations.

- Selection of the appropriate models and determination of relevant key measurement parameters;
- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Determination of forward-looking measurements and weightings; and
- The estimated future cash flows for the financial assets classified under Stage 3.

Measuring ECL – models and parameters

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

The Company fully considers forward-looking information when measuring ECL. ECL are the discounted product of the PD, LGD, and EAD after considering the forward-looking impact.

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For securities financing business, the Company determines the PD by borrower based on factors including the coverage ratio of underlying collateral value to margin loan (collateral to loan ratio) and the volatility of such collateral's valuation. For debt securities investments, internal credit rating is taken into consideration.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Measuring ECL – models and parameters (Continued)

- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. For securities financing business, the Company determines LGD, based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and type of securities.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

The criteria of Significant increase in credit risk (SICR)

The Company evaluates financial instruments to identify whether a SICR has occurred since initial recognition at each balance sheet date. An ECL allowance of financial assets is recognized according to the stage in which the assets are classified. This took account of what reasonable information, including forward looking information, is available to identify whether a SICR had arisen. The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For securities financing business, the Company sets differentiated collateral to loan ratios as triggering margin calls and force liquidation thresholds (force liquidation thresholds generally no less than 130%) against different exposures related to these transactions, based on the obligors' credit quality, operation situation, contract maturity date, the volatility and liquidity of related collateral securities, and related performance information.

For securities financing business, the Company considered securities financing business to have experienced a SICR if collateral to loan ratios are lower than the force liquidation thresholds, which means a decline in collateral valuation or the quality of the third-party collateral is significantly reduced. As at 31 December 2020 and 31 December 2019, over 95% of the securities financing balances of the Company were covered by collateral value of over the force liquidation thresholds of related loan or repo amounts.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

The criteria of Significant increase in credit risk (SICR) (Continued)

For debt securities investments, the Company makes use of its internal rating measurement system's results. The Company considers debt securities investments to have experienced a SICR if the latest internal ratings of the issuers of debt securities or the debt securities themselves underwent two notches of downward migration or more, compared with those ratings as at the acquisition date; and if the latest internal rating of issuers of debt securities or the debt securities themselves were under the predetermined grading. As at 31 December 2020 and 31 December 2019, all the debt securities investments of the Company were rated as investment grade or above and there was no SICR.

A backstop is applied to all relevant financial assets and they are considered to have experienced a SICR if the borrower, the counterparty, the issuer or the debtor is more than 30 days past due on its contractual payments.

The Company has used the low credit risk exemption for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits, financial assets held under resale agreements collateralized by debt securities.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Definition of default and credit impairment

The Company assesses whether a financial instrument has been credit-impaired in accordance with IFRS 9, in a manner consistent with its internal credit risk policies for managing financial instruments. The consideration includes qualitative criteria, quantitative criteria and upper limit. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of “in default”, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For securities financing business, forced liquidation of a client’s position is triggered based on a predetermined threshold of loan to collateral ratios; whereby the collateral valuation falls short of the related loan or repo amounts;
- The latest internal ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor, issuer, borrower or counterparty is in significant financial difficulty;
- An active market for that financial asset has disappeared because of debtor’s financial difficulties;
- Concessions have been made by the Company relating to the debtor, issuer, borrower or counterparty’s financial difficulty;
- It is becoming probable that the debtor, issuer, borrower, or counterparty will enter bankruptcy or undertake a financial restructuring, etc.

When a financial asset is considered to be credit-impaired, it may be the result of multiple events, not due to a separately identifiable event.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Definition of default and credit impairment (Continued)

In summary, the “three-stage” classification criteria for securities financing business is:

- Securities financing business with collateral to loan ratios above the force liquidation thresholds and those past due for no more than 30 days are classified under Stage 1.
- Securities financing business with collateral to loan ratios fall below the pre-determined force liquidation thresholds but above 100%; or those past due for more than 30 days but no more than 90 days are classified under Stage 2.
- Securities financing business with collateral to loan ratios fall below 100%; or those past due for more than 90 days are classified under Stage 3.

Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical data analysis and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. Key economic variables mainly include the cumulative growth rate of Domestic Gross Domestic Product (GDP), Producer Price Index (PPI), Fixed Asset Investments Completion Rate and the growth rate of the financial institutions’ loan balances. Regression analysis has been performed to determine the relationships between these economic variables and macro factors. The Company forecasts the economic variables under different economic scenarios and applies them in the measurement of ECL with Merton Model.

For all portfolios the Company concluded that three scenarios appropriately captured non-linearities of key economic variables. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The Company reevaluates the quantity and characteristic of the three scenarios at each balance sheet date. As at 31 December 2020 and 31 December 2019, the Company set three scenarios of optimism, base and pessimism for analysis of main product types, and the probability-weight of base scenario employed by the Company was more than that of the other scenarios.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Forward-looking information (Continued)

In 2020, the Company's key macroeconomic assumptions used in various macroeconomic scenarios include a forecast cumulative growth rate of 9.10% of GDP, 1.60% of the PPI, 6.70% of fixed Asset Investment Completion Rate, and a forecast growth rate of 11.10% of the financial institutions' loan balances, under the base scenario. In optimistic and pessimistic scenario, the above indicators' forecast value changes around benchmark value by no more than positive or negative 30%.

The assessment of SICR is performed using the Lifetime PD under each of the base and other scenarios multiplied by the associated scenario weighting, as well as qualitative criteria, quantitative criteria and upper limit. The Group measures ECL as either a probability weighted 12-month ECL or a probability weighted lifetime ECL. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As at 31 December 2020, by taking current economy situation, pandemic's impact and supporting policies applied by the government into comprehensive consideration, the Company updated relevant economic indicators for forward-looking measurement based on the latest economic forecasts. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes as at the financial statement date.

Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, weighting applied to economic scenarios and other factors considered when applying expert judgement. Changes in these inputs, assumptions and judgements are likely to have an impact on the measurement of ECLs.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Sensitivity analysis (Continued)

As mentioned above, the Company adopts three scenarios for all portfolios, being the optimistic scenario, base scenario and pessimistic scenario. A sensitivity analysis was applied to these scenarios as at 31 December 2020 and 31 December 2019 and the results were as follows:

- (i) The incremental impact on the ECL allowance of applying the probability weighted scenarios was no more than a 5% deviation from the base ECL scenario;
- (ii) The decremental impact on the ECL allowance of increasing the weighting applied to the optimistic scenario by 10% and a corresponding reduction of 10% weighting applied to the base scenario was no more than 5% of the ECL allowance;
- (iii) The incremental impact of shifting 10% of the weighting from the base case scenario to the pessimistic scenario was no more than 5% of the ECL allowance.

Meanwhile, the Company also uses sensitivity analysis to monitor the impact of changes to the credit risk classification of financial assets on ECL. As at 31 December and 31 December 2019, assuming there was no SICR since initial recognition, and all the financial assets in Stage 2 were moved to Stage 1, the decremental impact on ECL allowance recognized in statement of financial position would be less than 5%.

Collateral and other credit enhancements

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral for funds advanced or guarantee. The Company determined the type and amount of collateral according to the credit risk evaluation of counterparties. The collateral under margin financing and reverse repurchase agreements is primarily stocks, debt securities, funds etc. The management would test the market value of collateral periodically, and send margin calls according to related agreements, also monitor the market value fluctuation of collaterals when reviewing the measurement of the loss allowance.

Notes to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Impairment provision of securities financing business

As at 31 December 2020, the percentage of impairment provision applied by the Company on securities financing business under the Stage 1, Stage 2 and Stage 3 were 0.26% · 0.54% and 70.50%, respectively (31 December 2019: 0.23%, 1.35% and 50.08%).

Credit risk exposure analysis

As at 31 December 2020 and 31 December 2019, the credit quality of the Company's financing exposures to customers was in good condition and over 95% of the securities financing business of the Company were with collateral to loan ratios no lower than the force liquidation thresholds. High threshold of margin loans to collateral ratios indicated that PD was low. For debt securities investments, the Company employed both open market credit ratings and internal credit ratings simultaneously as admittance criteria. The debt securities will be admitted only when the internal and external ratings criteria are met. Majority of the Company's debt securities investments were rated as investment grade (AA) or above externally.

The Group's maximum exposure to credit risk without taking into account of any collateral and other credit enhancements:

	31 December 2020	31 December 2019
Financial assets at fair value through other comprehensive income	44,816,764	32,430,035
Financial assets held under resale agreements	16,117,203	21,118,756
Refundable deposits	8,740,991	2,793,611
Margin accounts	46,515,175	27,806,140
Financial assets at fair value through profit or loss	117,437,377	79,179,041
Derivative financial assets	1,632,209	955,450
Cash held on behalf of clients	70,268,389	52,695,657
Deposits in banks	28,580,085	47,221,032
Others	8,559,953	2,399,811
Total maximum credit risk exposure	<u>342,668,146</u>	<u>266,599,533</u>

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

	31 December 2020			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
Financial assets held under resale agreements				
Carrying amount	15,219,754	106,378	1,876,840	17,202,972
Loss allowance	(41,902)	(576)	(1,043,291)	(1,085,769)
Book value	<u>15,177,852</u>	<u>105,802</u>	<u>833,549</u>	<u>16,117,203</u>
Including: stock-pledged repurchase business				
Carrying amount	7,649,363	106,378	1,876,840	9,632,581
Loss allowance	(41,415)	(576)	(1,043,291)	(1,085,282)
Collateral	<u>37,293,861</u>	<u>300,487</u>	<u>3,213,311</u>	<u>40,807,659</u>
Margin accounts				
Carrying amount	46,611,235	60	1,072,550	47,683,845
Loss allowance	(99,346)	(2)	(1,069,322)	(1,168,670)
Book value	<u>46,511,889</u>	<u>58</u>	<u>3,228</u>	<u>46,515,175</u>
Financial assets at fair value through other comprehensive income (debt instruments)				
Book value	<u>44,814,270</u>	<u>-</u>	<u>2,494</u>	<u>44,816,764</u>
Loss allowance	(297,592)	-	(20,124)	(317,716)

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

	31 December 2019			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
Financial assets held under resale agreements				
Carrying amount	19,835,841	374,703	1,005,091	21,215,635
Loss allowance	(27,466)	(5,075)	(64,338)	(96,879)
Book value	19,808,375	369,628	940,753	21,118,756
Including: stock-pledged repurchase business				
Carrying amount	13,649,571	374,703	1,005,091	15,029,365
Loss allowance	(26,862)	(5,075)	(64,338)	(96,275)
Collateral	47,569,964	992,840	1,594,753	50,157,557
Margin accounts				
Carrying amount	27,766,695	8	1,187,786	28,954,489
Loss allowance	(67,013)	(1)	(1,081,335)	(1,148,349)
Book value	27,699,682	7	106,451	27,806,140
Financial assets at fair value through other comprehensive income (debt instruments)				
Book value	32,422,774	4,764	2,497	32,430,035
Loss allowance	(10,514)	(1,558)	(15,366)	(27,438)

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

The movements of loss allowance are mainly affected by:

- Increases are primarily attributable to new financial instruments recognized, changes in PD, LGD and expected cash flow recovery rate affected by market changes, the resulted movements amongst Stage 1, Stage 2 and Stage 3, and updates of parameters and assumptions in the ECL model;
- Reversals include the reversals caused by the redemption or disposal of financial assets, the impact of changes in model parameters and assumption;
- Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired, and the corresponding measurement basis changes between the 12-month (12M) or the Lifetime basis; and
- Foreign exchange and other movements include changes in foreign exchange translations for assets denominated in foreign currencies and other movements.

Notes to the Consolidated Financial Statements (Continued)

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognized as follows according to the stage of ECL:

(i) Credit loss allowance for margin accounts

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2020	67,013	1	1,081,335	1,148,349
Increases	69,664	2	5,218	74,884
Reversals	(37,327)	–	(9,532)	(46,859)
Write – offs	–	–	(430)	(430)
Transfer:				
Stage 2 to stage 1	1	(1)	–	–
Foreign exchange and other movements	(5)	–	(7,269)	(7,274)
31 December 2020	99,346	2	1,069,322	1,168,670

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	88,946	5,485	1,104,693	1,199,124
Increases	35,172	–	194,335	229,507
Reversals	(57,194)	(5,165)	(220,351)	(282,710)
Write – offs	–	–	–	–
Transfer:				
Stage 1 to stage 3	(238)	–	238	–
Stage 2 to stage 1	319	(319)	–	–
Stage 3 to stage 1	5	–	(5)	–
Foreign exchange and other movements	3	–	2,425	2,428
31 December 2019	67,013	1	1,081,335	1,148,349

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

(ii) Credit loss allowance for financial assets held under resale agreements

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2020	27,466	5,075	64,338	96,879
Increases	35,304	554	989,478	1,025,336
Reversals	(19,966)	(416)	(16,033)	(36,415)
Write – offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(22)	22	–	–
Stage 1 to stage 3	(849)	–	849	–
Stage 2 to stage 3	–	(4,659)	4,659	–
Foreign exchange and other movements	(31)	–	–	(31)
31 December 2020	<u>41,902</u>	<u>576</u>	<u>1,043,291</u>	<u>1,085,769</u>

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	48,389	51,546	19,661	119,596
Increases	15,964	3,818	34,156	53,938
Reversals	(32,892)	(23,498)	(20,277)	(76,667)
Write – offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(1,414)	1,414	–	–
Stage 1 to stage 3	(4,220)	–	4,220	–
Stage 2 to stage 3	–	(26,578)	26,578	–
Stage 2 to stage 1	1,627	(1,627)	–	–
Foreign exchange and other movements	12	–	–	12
31 December 2019	<u>27,466</u>	<u>5,075</u>	<u>64,338</u>	<u>96,879</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

(iii) Credit loss allowance for financial assets at fair value through other comprehensive income (debt instruments)

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2020	10,514	1,558	15,366	27,438
Increases	292,734	–	4,057	296,791
Reversals	(5,539)	(396)	(461)	(6,396)
Write – offs	–	–	–	–
Transfer:				
Stage 2 to stage 3	–	(1,162)	1,162	–
Foreign exchange and other movements	(117)	–	–	(117)
31 December 2020	297,592	–	20,124	317,716

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	7,978	1,227	1,005	10,210
Increases	9,169	1,160	14,358	24,687
Reversals	(6,602)	(831)	–	(7,433)
Write – offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(2)	2	–	–
Stage 1 to stage 3	(3)	–	3	–
Foreign exchange and other movements	(26)	–	–	(26)
31 December 2019	10,514	1,558	15,366	27,438

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk

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

The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralization management for securities investment and financing activities, and has adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, in year of 2020, the Company issued various medium and long-term debt financing instruments, and equity refinancing instruments, to maintain sufficient liquidity reserve, improve emergency plans for liquidity risk, and ensure liquidity risk under control.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2020					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	74,710,488	–	–	–	–	74,710,488
Derivative financial liabilities	2,420,159	3,598	813	50	–	2,424,620
Financial liabilities at fair value through profit or loss	–	5,140	342,326	1,248,263	–	1,595,729
Financial assets sold under repurchase agreements	–	78,784,575	5,852,698	–	–	84,637,273
Placements from banks and other financial institutions	–	9,063,700	–	–	–	9,063,700
Short-term borrowings	–	625,426	–	–	–	625,426
Short-term financing instruments payable	–	34,762,554	7,615,333	–	–	42,377,887
Bonds in issue	–	415,363	989,588	51,955,691	–	53,360,642
Lease liabilities	–	137,867	208,494	682,959	24,412	1,053,732
Others (i)	9,337,982	5,214,710	16,266,370	4,050	596	30,823,708
Total	86,468,629	129,012,933	31,275,622	53,891,013	25,008	300,673,205
Cash flows from derivative financial liabilities settled on a net basis	2,420,159	3,144	813	50	–	2,424,166
Gross-settled derivative financial liabilities	–	454	–	–	–	454
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	454	–	–	–	454

- (i) Others mainly include bonds in issue with maturity within one year and amounts due to other holders of consolidated structured entities at fair value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows: (Continued)

	31 December 2019					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	54,625,736	–	–	–	–	54,625,736
Derivative financial liabilities	759,681	1,450	313	128	–	761,572
Financial liabilities at fair value through profit or loss	–	842,773	283,754	–	–	1,126,527
Financial assets sold under repurchase agreements	–	52,701,156	2,944,771	–	–	55,645,927
Placements from banks and other financial institutions	–	9,265,754	–	–	–	9,265,754
Short-term borrowings	–	889,352	–	–	–	889,352
Short-term financing instruments payable	–	16,054,406	1,509,107	–	–	17,563,513
Bonds in issue	–	220,000	1,224,568	35,560,221	–	37,004,789
Lease liabilities	–	135,110	238,789	730,122	63,563	1,167,584
Others	20,694,121	10,169,078	19,458,764	10,286	–	50,332,249
Total	76,079,538	90,279,079	25,660,066	36,300,757	63,563	228,383,003
Cash flows from derivative financial liabilities settled on a net basis	759,681	823	262	128	–	760,894
Gross-settled derivative financial liabilities	–	627	51	–	–	678
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	627	51	–	–	678

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The table below analyzes the Group's lease agreements, which were committed as at 31 December 2020 and 31 December 2019 but not commenced into the relevant maturity groupings based on their contractual maturities:

	31 December 2020				
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Lease liabilities	4,552	5,342	13,464	1,198	24,556

	31 December 2019				
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Lease liabilities	7,109	7,109	20,133	6,865	41,216

53.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits, sensitivity index limit and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines, the effectiveness of its risks and the income level after risk adjustments, and includes the assessment results in the performance evaluation of these business lines. The Company makes on-going efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

In 2020, the overall scale of the Company's proprietary business increased to achieve better investment income, with market risk effectively controlled within the scope of various risk limit indicators.

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence level.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(1) Value at risk (VaR) (Continued)

The VaR of the Company's investment portfolio is calculated using the portfolio's historical data information. Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions. As a supplementary measure, the Company implements daily and specific stress tests to assess the impact on extreme adverse movements in risk indicators to the net capital of the Company and the profit and loss on proprietary portfolio and proposes emergency plans with relevant recommendations and measures accordingly.

Consistent with its internal risk management policy and comparable with peers, the Group's VaR was computed at a confidence level of 95% and with a holding period of 1 trading day. The Group's VaR analysis by risk categories is summarized as follows:

	31 December 2020	31 December 2019
Equity price-sensitive financial instruments	153,437	166,277
Interest rate-sensitive financial instruments	183,447	116,813

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by China Securities Finance Corporation Limited and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the VaR calculation above.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(2) Interest rate risk

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

The Company primarily uses interest rate sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year-end on the Company's total revenue and total equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same and market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce its interest rate risk.

Interest rate sensitivity analysis are as follows:

Sensitivity to revenue	31 December 2020	31 December 2019
Change in basis points		
+25 basis points	(502,806)	(303,623)
- 25 basis points	506,548	305,685

Sensitivity to equity	31 December 2020	31 December 2019
Change in basis points		
+25 basis points	(250,464)	(267,953)
- 25 basis points	252,889	273,987

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(3) Foreign currency rate risk

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. As at 31 December 2020, the foreign exchange exposure is approximately RMB1,533 million (31 December 2019: RMB1,621 million). The Group manages its foreign exchange rate risk by implementing integrated management of domestic and foreign Fixed-Income securities, Currencies and Commodities (FICC) and derivatives business, limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in RMB, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.

(4) Other price risks

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revised 2016) (the "Administrative Measures") issued by the CSRC in 2016 and Calculation Standards for Risk Control Indicators of Securities Companies (CSRC Announcement [2020] No.10) (the "Calculation Standards") issued by the CSRC in 2020, respectively, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.4 Capital management (Continued)

Risk coverage ratio = net capital/sum of various risk capital provisions x 100%,

Capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%,

Liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%,

Net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

Core net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Calculation Standards.

In March 2020, the Company received a Notice on the Matters about the Pilot of Consolidated Risk Control and Monitoring from CSRC (Notice of Department of Institutions (2020) No. 663), which allowed the Company to officially participate in the pilot of consolidated risk control and to implement differentiated calculation standards for risk control indicators.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	31 December 2020	31 December 2019
Non-current assets			
Property, plant and equipment		559,705	490,054
Right-of-use assets		772,405	833,701
Investment properties		56,133	49,438
Intangible assets		332,193	209,077
Investment in subsidiaries	20	6,528,123	5,333,123
Investment in associates		47,566	45,824
Financial assets at fair value through profit or loss		4,869,600	3,112,441
Financial assets at fair value through other comprehensive income		3,225,144	3,153,312
Financial assets held under resale agreements		1,348,317	2,507,276
Refundable deposits		4,558,229	960,075
Deferred tax assets		1,608,422	864,274
Other non-current assets		85,054	109,426
Total non-current assets		23,990,891	17,668,021
Current assets			
Margin accounts		46,293,953	27,752,838
Accounts receivable		7,955,142	1,977,201
Financial assets at fair value through profit or loss		116,226,883	75,551,994
Financial assets at fair value through other comprehensive income		42,784,820	31,436,517
Derivative financial assets		1,639,151	955,450
Financial assets held under resale agreements		14,467,809	18,392,326
Cash held on behalf of clients		62,345,724	47,853,696
Cash and bank balances		26,989,088	44,916,905
Other current assets		402,765	151,373
Total current assets		319,105,335	248,988,300
Total assets		343,096,226	266,656,321

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Note	31 December 2020	31 December 2019
Current liabilities			
Accounts payable to brokerage clients		62,619,896	47,967,795
Lease liabilities		259,349	279,206
Derivative financial liabilities		2,451,096	763,495
Financial liabilities at fair value through profit or loss		347,466	1,126,344
Financial assets sold under repurchase agreements		82,131,345	54,928,626
Placements from banks and other financial institutions		9,035,700	9,263,545
Taxes payable		1,292,817	529,492
Short-term financing instruments payable		42,296,044	17,495,953
Other current liabilities		27,910,324	43,974,564
Total current liabilities		<u>228,344,037</u>	<u>176,329,020</u>
Net current assets		<u>90,761,298</u>	<u>72,659,280</u>
Total assets less current liabilities		<u>114,752,189</u>	<u>90,327,301</u>
Non-current liabilities			
Bonds in issue		46,745,928	34,256,291
Lease liabilities		490,645	525,976
Financial liabilities at fair value through profit or loss		1,248,263	–
Deferred tax liabilities		952,400	639,292
Other non-current liabilities		4,394	4,480
Total non-current liabilities		<u>49,441,630</u>	<u>35,426,039</u>
Net assets		<u><u>65,310,559</u></u>	<u><u>54,901,262</u></u>
Equity			
Share capital		7,756,695	7,646,385
Other equity instruments		9,961,509	9,980,698
Reserves		27,330,438	20,858,907
Retained earnings		20,261,917	16,415,272
Total equity		<u><u>65,310,559</u></u>	<u><u>54,901,262</u></u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2020		7,646,385	9,980,698	8,690,960	3,416,707	8,530,041	221,199	16,415,272	54,901,262
Profit for the year		-	-	-	-	-	-	8,675,945	8,675,945
Other comprehensive income for the year		-	-	-	-	-	72,164	-	72,164
Total comprehensive income for the year		-	-	-	-	-	72,164	8,675,945	8,748,109
Capital injected by equity holders									
- Issuance of A shares	44	110,310	-	3,737,454	-	-	-	-	3,847,764
- Capital injected by other equity instrument holders	45	-	(19,189)	-	-	-	-	-	(19,189)
Appropriation to surplus reserves	46	-	-	-	867,595	-	-	(867,595)	-
Appropriation to general reserves	46	-	-	-	-	1,794,318	-	(1,794,318)	-
Dividends - 2019	15	-	-	-	-	-	-	(1,796,901)	(1,796,901)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	(370,486)	(370,486)
At 31 December 2020		7,756,695	9,961,509	12,428,414	4,284,302	10,324,359	293,363	20,261,917	65,310,559

The net profit of the Company for the year ended 31 December 2020 amounted to RMB8,676 million (2019: RMB5,397 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2019		7,646,385	5,000,000	8,690,960	2,876,986	7,419,395	4,936	14,416,192	46,054,854
Profit for the year		-	-	-	-	-	-	5,397,214	5,397,214
Other comprehensive income for the year		-	-	-	-	-	216,263	-	216,263
Total comprehensive income for the year		-	-	-	-	-	216,263	5,397,214	5,613,477
Capital injected by equity holders									
- Capital injected by other equity instrument holders	45	-	4,980,698	-	-	-	-	-	4,980,698
Appropriation to surplus reserves	46	-	-	-	539,721	-	-	(539,721)	-
Appropriation to general reserves	46	-	-	-	-	1,110,646	-	(1,110,646)	-
Dividends - 2018	15	-	-	-	-	-	-	(1,376,349)	(1,376,349)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	(371,418)	(371,418)
At 31 December 2019		7,646,385	9,980,698	8,690,960	3,416,707	8,530,041	221,199	16,415,272	54,901,262

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

(In RMB thousands, unless otherwise stated)

56 EVENTS AFTER THE REPORTING PERIOD

(1) Subordinated bond issuance

In January 2021, the Company publicly issued a subordinated bond with a face value of RMB3 billion to professional investors. The bond can be divided into two categories: (a) the “21 Xintou C1” has a face value of RMB2 billion, with a maturity of 546 days and a nominal rate of 3.50%; (b) the “21 Xintou C2” has a face value of RMB1 billion, with a maturity of 3 years and a nominal rate of 3.87%. The bond pays interest annually at fixed rate per annum and is not guaranteed.

In March 2021, the Company publicly issued a subordinated bond with a face value of RMB4 billion to professional investors. The bond can be divided into two categories: (a) the “21 Xintou C3” has a face value of RMB3 billion, with a maturity of 455 days, and accrues interest at a nominal rate of 3.40%; (b) the “21 Xintou C4” has a face value of RMB1 billion, with a maturity of 3 years and a nominal rate of 3.88%, and pays interest annually. The bond accrues interest at fixed rate per annum and is not guaranteed.

(2) Short-term commercial paper issuance

In January 2021, the Company publicly issued a 88-day fixed rate commercial paper with a face value of RMB4 billion (“21 CSC CP001”). The bond pays the principal and interest at 2.40% per annum at maturity and is not guaranteed.

In January 2021, the Company publicly issued a 91-day fixed rate commercial paper with a face value of RMB4 billion (“21 CSC CP002”). The bond pays the principal and interest at 2.42% per annum at maturity and is not guaranteed.

In February 2021, the Company publicly issued a 91-day fixed rate commercial paper with a face value of RMB4.5 billion (“21 CSC CP003”). The bond pays the principal and interest at 2.89% per annum at maturity and is not guaranteed.

In March 2021, the Company publicly issued a 88-day fixed rate commercial paper with a face value of RMB4.5 billion (“21 CSC CP004BC”). The bond pays the principal and interest at 2.62% per annum at maturity and is not guaranteed.

(3) Dividend

On 31 March 2021, the Board of directors proposes a cash dividend of RMB3.75 (tax inclusive) per 10 ordinary shares, amounting to RMB2,909 million (tax inclusive) in total based on 7,756,694,797 shares for the year ended 31 December 2020. The dividend distribution represents 31.83% of profit for the year 2020 attributable to ordinary equity holders of the Company in the consolidated financial statements. The remaining undistributed profit will be carried forward to the following years. Such proposal is subject to the approval by the ordinary equity holders in the Annual General Meeting.

CSC Financial Co., Ltd.
(Incorporated in the People's Republic of China with Limited Liability)

Auditor's Report and Consolidated Financial Statements
For the year ended 31 December 2019
(Prepared under International Financial Reporting Standards)

Independent Auditor's Report

To the Shareholders of CSC Financial Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 8 to 129, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- Consolidation of structured entities
- Expected credit impairment allowance of Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)

Key Audit Matter	How our audit addressed the Key Audit Matter
------------------	--

Consolidation of structured entities

Refer to Note 2.3, 3.3(5) and 48 to the consolidated financial statements.

The Group acted as asset manager for, or invested in, a number of investment funds and asset management plans which were structured entities.

Management made significant judgements when concluding on whether the Group controlled, and therefore should consolidate, these structured entities.

Management has determined that the Group had control of certain structured entities based on their assessment of: i) the Group's power over the entities; ii) its exposure to variable returns from its involvement with those entities; and iii) its ability to use its power to affect the amount of its returns from these structured entities. Those structured entities over which Management has concluded the Group had control have been consolidated and their aggregated total assets were RMB9,051.14 million as at 31 December 2019.

The significant judgements exercised by Management in assessing whether the Group had control over the structured entities and the amount of such structured entities on the consolidated statement of financial position of the Group resulted in this matter being identified as a key audit matter.

We read a sample of the contracts from the Group's asset management and investment portfolio to assess: i) the extent of power the Group had over its structured entities; ii) the Group's exposure or rights to variable returns from its involvement with those structured entities; and iii) the relationship between the Group's power and returns with respect to the structured entities.

We selected a sample of Management's calculations of the Group's exposure or rights to variable returns from its involvement with the structured entities. We then traced the data used in these calculations back to the related contracts and re-performed the calculations to test their accuracy.

Based on the audit procedures performed above, the judgements made by Management when concluding whether to consolidate or not the structured entities were considered acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
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Expected credit impairment allowance of Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)

Refer to Notes 3.1(5), 3.3(1), 13, 23, 24, 28 and 53.1 to the consolidated financial statements

As at 31 December 2019, the Group recognized the following financial assets in its consolidated statement of financial position:

- Margin accounts amounted to RMB28,954.49 million with a credit loss allowance of RMB1,148.35 million;
- Financial assets held under resale agreements amounted to RMB21,215.64 million with a credit loss allowance of RMB96.88 million;
- Financial assets at fair value through other comprehensive income (debt instruments) amounted to RMB32,430.04 million with a credit loss allowance of RMB27.44 million.

The credit impairment losses for the aforesaid financial assets recognized in the Group’s consolidated income statement for the year ended 31 December 2019 was a reversal of RMB58.68 million.

The credit loss allowances as at 31 December 2019 for the aforesaid financial assets represented Management’s best estimates of the expected credit losses (“ECL”) in accordance with International Financial Reporting Standard 9: “Financial Instruments”.

We evaluated and tested the Group’s internal controls relating to the measurement of ECL which comprised:

- (1) Governance over ECL models, including the selection and approval of methodologies and models; and the ongoing monitoring and optimization of such models;
- (2) Review and approval of significant management judgements and assumptions, including: i) the criteria for SICR with reference to management credit practices such as the monitoring of collateral value for Margin accounts/Financial assets held under resale agreements; and, ongoing monitoring of external credit ratings and negative information related to debt instruments; ii) the definition of default and credit-impairment; and iii) the use of economic variables and relative weightings for forward-looking scenarios;
- (3) Internal controls over the accuracy and completeness of key inputs used by the models.

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

Management applied a three – stage impairment model to calculate the ECL. For such financial assets classified under Stages 1 and 2, Management assessed credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default, loss given default and exposure at default. For credit-impaired financial assets classified under Stage 3, Management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.

The measurement model for ECL involves significant management judgements and assumptions for each type of product and investment, primarily including the following:

- (1) Selection of the appropriate models and assumptions;
- (2) Determination of the criteria for significant increase in credit risk (“SICR”), definitions of defaults and credit impairment;
- (3) Establishment of the number and relative weightings of forward-looking scenarios;

The Group has established governance processes and controls over the measurement of ECL.

The Group developed a number of complex models, adopted numerous parameters and data inputs, and applied significant management judgements and assumptions in measuring the ECL. The amounts involved were significant to the Group’s financial statements. This led to this matter being identified as a key audit matter.

We examined the application of the SICR criteria, defaults and credit impairment definition by testing the fair value of the collateral of Margin accounts and Financial assets held under resale agreements; and we examined the external credit ratings and negative information related to debt instruments, on a sample basis.

For forward-looking scenarios, we examined the basis of determining the economic indicators, number of scenarios and relative weightings; assessed the reasonableness of the economic indicators forecasted under the different scenarios; and performed sensitivity analysis on economic indicators and relative weightings.

We examined major data inputs to the ECL models for selected samples, including historical data and data at the measurement date for accuracy and completeness.

For credit-impaired assets under Stage 3, we tested on a sample basis the credit loss allowance computed by Management with reference to financial information of borrowers and guarantors, and the latest collateral valuations, as appropriate.

Based on the audit procedures performed, in the context of the inherent uncertainties associated with the measurement of ECL, we considered the models, key parameters, significant judgments and assumptions adopted by Management and the measurement results to be acceptable.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2020

CONSOLIDATED INCOME STATEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2019
 (In RMB thousands, unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
Revenue			
Fee and commission income	6	8,632,665	7,231,682
Interest income	7	6,243,047	6,764,194
Net investment gains	8	4,406,510	2,416,898
		<u>19,282,222</u>	<u>16,412,774</u>
Other income	9	125,172	79,068
Total revenue and other income		<u>19,407,394</u>	<u>16,491,842</u>
Fee and commission expenses	10	(1,007,621)	(802,747)
Interest expenses	10	(4,683,906)	(4,770,850)
Staff costs	10	(4,709,554)	(3,954,082)
Tax and surcharges		(98,597)	(79,928)
Other operating expenses and costs	10	(1,805,800)	(1,686,761)
Credit impairment reverses /(losses)	13	59,430	(1,153,905)
Total expenses		<u>(12,246,048)</u>	<u>(12,448,273)</u>
Operating profit		<u>7,161,346</u>	<u>4,043,569</u>
Share of profits and losses of associates		<u>(7,606)</u>	<u>7,874</u>
Profit before income tax		<u>7,153,740</u>	<u>4,051,443</u>
Income tax expense	14	<u>(1,624,092)</u>	<u>(948,015)</u>
Profit for the year		<u>5,529,648</u>	<u>3,103,428</u>
Attributable to:			
Equity holders of the Company		5,501,688	3,087,460
Non-controlling interests		<u>27,960</u>	<u>15,968</u>
		<u>5,529,648</u>	<u>3,103,428</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
- Basic and diluted	16	<u>0.67</u>	<u>0.37</u>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2019	2018
Profit for the year	<u>5,529,648</u>	<u>3,103,428</u>
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent years		
Net gains on investments in debt instruments measured at fair value through other comprehensive income	257,719	641,318
Net (gains)/losses on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	(98,651)	87,021
Income tax relating to these items	<u>(38,744)</u>	<u>(181,847)</u>
	120,324	546,492
Share of other comprehensive income of associates	(1,352)	1,131
Foreign currency translation differences	<u>33,836</u>	<u>114,820</u>
Items that will not be reclassified subsequently to profit or loss		
Net gains/(losses) on investments in equity instruments designated as at fair value through other comprehensive income	154,688	(435,672)
Income tax relating to these items	<u>(37,442)</u>	<u>102,089</u>
	<u>117,246</u>	<u>(333,583)</u>
Other comprehensive income for the year, net of tax	<u>270,054</u>	<u>328,860</u>
Total comprehensive income for the year	<u><u>5,799,702</u></u>	<u><u>3,432,288</u></u>
Attributable to:		
Equity holders of the Company	5,771,742	3,416,320
Non-controlling interests	<u>27,960</u>	<u>15,968</u>
	<u><u>5,799,702</u></u>	<u><u>3,432,288</u></u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

	Note	31 December 2019	31 December 2018
Non-current assets			
Property, plant and equipment	17	503,438	451,376
Right-of-use assets	18	1,102,008	
Investment properties		49,438	47,742
Intangible assets	19	235,918	186,915
Investment in associates	21	269,512	162,713
Financial assets at fair value through profit or loss	22	3,296,031	2,978,326
Financial assets at fair value through other comprehensive income	23	3,153,312	3,003,549
Financial assets at amortized costs		-	67,276
Financial assets held under resale agreements	24	2,507,276	3,449,017
Refundable deposits	25	2,793,611	1,880,554
Deferred tax assets	26	963,865	974,506
Other non-current assets	27	126,428	175,859
Total non-current assets		15,000,837	13,377,833
Current assets			
Margin accounts	28	27,806,140	25,148,083
Accounts receivable	29	2,136,866	1,440,038
Financial assets at fair value through profit or loss	22	88,459,902	54,347,744
Financial assets at fair value through other comprehensive income	23	32,490,523	27,965,580
Financial assets at amortized cost		-	119,787
Derivative financial assets	30	955,450	1,239,584
Financial assets held under resale agreements	24	18,611,480	20,348,220
Cash held on behalf of clients	31	52,695,657	33,698,335
Cash and bank balances	32	47,221,055	17,055,809
Other current assets	33	291,715	341,300
Total current assets		270,668,788	181,704,480
Total assets		285,669,625	195,082,313

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

	Note	31 December 2019	31 December 2018
Current liabilities			
Accounts payable to brokerage clients	34	54,625,736	35,038,585
Lease liabilities	35	340,140	
Derivative financial liabilities	30	761,572	177,461
Financial liabilities at fair value through profit or loss	36	1,126,344	1,252,581
Financial assets sold under repurchase agreements	37	55,532,975	32,531,875
Placements from banks and other financial institutions	38	9,263,545	4,048,839
Taxes payable	39	600,594	302,981
Short-term borrowings	40	889,012	1,118,475
Short-term financing instruments payable	41	17,495,953	13,753,706
Other current liabilities	42	52,599,717	20,997,043
Total current liabilities		193,235,588	109,221,546
Net current assets		77,433,200	72,482,934
Total assets less current liabilities		92,434,037	85,860,767
Non-current liabilities			
Bonds in issue	43	34,133,021	37,650,008
Lease liabilities	35	735,122	
Deferred tax liabilities	26	660,874	342,642
Other non-current liabilities		10,286	4,720
Total non-current liabilities		35,539,303	37,997,370
Net assets		56,894,734	47,863,397
Equity			
Share capital	44	7,646,385	7,646,385
Other equity instruments	45	9,980,698	5,000,000
Reserves	46	21,412,062	19,425,664
Retained earnings		17,542,774	15,505,197
Equity attributable to equity holders of the Company		56,581,919	47,577,246
Non-controlling interests		312,815	286,151
Total equity		56,894,734	47,863,397

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

Approved and authorized for issue by the Board of Directors on 26 March 2020.

 Chairman

 Executive Director and President

CSC Financial Co., Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company											
	Note	Share capital	Other instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Reserves		Non-controlling interests	Total	
								Retained earnings	Foreign currency translation reserve			
At 1 January 2019		7,646,385	5,000,000	8,753,213	3,013,066	7,535,426	(32,746)	156,705	15,505,197	47,577,246	286,151	47,863,397
Profit for the year		-	-	-	-	-	-	-	5,501,688	5,501,688	27,960	5,529,648
Other comprehensive income for the year		-	-	-	-	-	236,218	33,836	-	270,054	-	270,054
Total comprehensive income for the year		-	-	-	-	-	236,218	33,836	5,501,688	5,771,742	27,960	5,799,702
Capital injected by equity holders		-	-	-	-	-	-	-	-	-	8,350	8,350
- Capital injected by subsidiaries' non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-
- Capital injected by other equity instrument holders	45	-	4,980,698	-	-	-	-	-	-	4,980,698	-	4,980,698
Appropriation to surplus reserves	46	-	-	-	560,262	-	-	-	(560,262)	-	-	-
Appropriation to general reserves	46	-	-	-	-	1,156,082	-	-	(1,156,082)	-	-	-
Dividends - 2018	15	-	-	-	-	-	-	-	(1,376,349)	(1,376,349)	-	(1,376,349)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	-	(371,418)	(371,418)	-	(371,418)
Dividends to non-controlling interests		-	-	-	-	-	-	-	-	-	(9,646)	(9,646)
At 31 December 2019		7,646,385	9,980,698	8,753,213	3,573,328	8,691,508	203,472	190,541	17,542,774	56,581,919	312,815	56,894,734

CSC Financial Co., Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company										Total	
	Note	Share capital	Other instruments	Equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Reserves			Non-controlling interests
									Foreign currency translation reserve	Retained earnings		
At 1 January 2018		7,246,385	5,000,000	7,084,516	2,698,328	6,915,734	(246,786)	41,885	15,022,518	43,762,580	245,111	44,007,691
Profit for the year		-	-	-	-	-	-	-	3,087,460	3,087,460	15,968	3,103,428
Other comprehensive income for the year		-	-	-	-	214,040	114,820	-	-	328,860	-	328,860
Total comprehensive income for the year		-	-	-	-	214,040	114,820	3,087,460	3,416,320	15,968	3,432,288	
Capital injected by equity holders		44	400,000	-	1,668,697	-	-	-	-	2,068,697	-	2,068,697
- Issuance of A shares												
- Capital injected by subsidiaries' non-controlling equity holders											36,031	36,031
Appropriation to surplus reserves	46	-	-	-	314,738	-	-	-	(314,738)	-	-	-
Appropriation to general reserves	46	-	-	-	-	619,692	-	-	(619,692)	-	-	-
Dividends - 2017	15	-	-	-	-	-	-	-	(1,376,351)	(1,376,351)	-	(1,376,351)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	-	(294,000)	(294,000)	-	(294,000)
Dividends to non-controlling interests		-	-	-	-	-	-	-	-	-	(10,959)	(10,959)
At 31 December 2018		7,646,385	5,000,000	8,753,213	3,013,066	7,535,426	(32,746)	156,705	15,505,197	47,577,246	286,151	47,863,397

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

CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 2019
 (In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2019	2018
Cash flows from operating activities		
Profit before income tax	7,153,740	4,051,443
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable, borrowings and lease liabilities	2,954,034	2,883,326
Dividend income and interest income from financial assets at fair value through other comprehensive income	(1,361,251)	(1,478,139)
Net gains from disposal of financial assets at fair value through other comprehensive income	(157,198)	(89,402)
Interest income and net gains from disposal of financial assets at amortized costs	(6,618)	(27,320)
Net gains/losses attributable to other interest holders of consolidated structured entities	507,086	360,833
Net gains from disposal of investments in associates and joint ventures	-	(25,294)
Share of profits and losses from associates and joint ventures	7,606	(7,874)
Net gains on disposal of property, plant, equipment and other assets	(334)	(231)
Revaluation gains/losses on financial instruments at fair value through profit or loss	(1,644,325)	(988,850)
Net foreign exchange gains/losses	(287)	22,371
Depreciation and amortization	572,534	249,609
Credit impairment losses	(59,430)	1,153,905
	<u>7,965,557</u>	<u>6,104,377</u>
Net changes in operating assets		
Margin accounts	(2,672,642)	21,986,984
Financial assets at fair value through profit or loss	(31,712,884)	(12,943,383)
Cash held on behalf of clients	(18,999,203)	6,056,892
Financial assets held under resale agreements	2,684,240	2,248,633
Other operating assets	(2,624,988)	(215,397)
	<u>(53,325,477)</u>	<u>17,133,729</u>
Net changes in operating liabilities		
Accounts payable to brokerage clients	19,587,151	(6,377,918)
Financial liabilities at fair value through profit or loss	(108,089)	1,081,968
Financial assets sold under repurchase agreements	22,938,207	3,345,658
Placements from banks and other financial institutions	5,240,000	(10,000,000)
Other operating liabilities	16,549,619	155,252
	<u>64,206,888</u>	<u>(11,795,040)</u>
Net cash inflow from operating activities before tax	18,846,968	11,443,066
Income tax paid	(1,155,350)	(882,951)
Net cash inflow from operating activities	<u>17,691,618</u>	<u>10,560,115</u>

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2019	2018
Cash flows from investing activities		
Net cash flow from purchase or disposal of financial assets at fair value through other comprehensive income	(4,124,180)	(1,301,669)
Dividend income and interest income received from financial assets at fair value through other comprehensive income	1,268,489	1,450,514
Cash paid for purchase of property, plant and equipment, intangible assets and other assets	(290,266)	(172,865)
Net cash flow from purchase or disposal of financial assets at amortized costs	186,305	75,062
Net cash flow from investments in associates	29,307	7,823
Other cash flows from investing activities	(13,105)	(210,539)
Net cash outflow from investing activities	(2,943,450)	(151,674)
Cash flows from financing activities		
Cash inflows from perpetual bonds	5,000,000	-
Cash inflows from public offering	-	2,168,000
Cash inflows from capital injected by non-controlling interests	8,350	36,031
Cash inflows from borrowing activities	30,711,104	22,979,398
Cash inflows from issuing bonds	71,444,940	77,624,216
Cash outflows from dividend distribution	(1,376,349)	(1,376,349)
Cash outflows from other equity instrument holders	(294,000)	(294,000)
Cash outflows from distribution to subsidiaries' non-controlling equity holders	(9,646)	(10,960)
Repayments of interest on debts	(2,711,272)	(2,772,337)
Payments of debts	(86,841,667)	(102,808,086)
Other cash outflows from financing activities	(649,484)	(388,951)
Net cash inflow /(outflow) from financing activities	15,281,976	(4,843,038)
Net change in cash and cash equivalents	30,030,144	5,565,403
Cash and cash equivalents at the beginning of the year	16,841,813	11,183,962
Effect of exchange rate changes on cash and cash equivalents	63,611	92,448
Cash and cash equivalents at the end of the year (Note 47)	46,935,568	16,841,813

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

NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

1 GENERAL INFORMATION

CSC Financial Co., Ltd. (the “Company”) (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the “CSRC”) on 2 November 2005. The original registered capital of the Company was RMB2,700.00 million. The registered address of the Company is Unit 4, No.66 Anli Road, Chaoyang District, Beijing, the People’s Republic of China (the “PRC”).

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100.00 million.

The Company completed its initial public offering of overseas listed foreign shares (“H shares”) on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076.47 million new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69,915,238 H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246.39 million after such issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

The Company completed its initial public offering of domestic listed shares (“A shares”) on the Shanghai Stock Exchange on 20 June 2018. The Company issued a total of 400,000,000 shares with a nominal value of RMB1 per share. After this issuance, the registered capital of the Company increased to RMB7,646,385,238.00. The Company completed the industrial and commercial registration for these changes on 18 February 2019.

The principal activities of the Company and its subsidiaries (collectively, the “Group”) include securities brokerage, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsoring, proprietary trading and investment of securities, securities asset management, agency sale of securities investment funds, introducing brokerage for futures companies, margin financing and securities lending services, agency sale of financial products, market-making of stock options, custodian services for securities investment funds, and sale of precious metal products, commodity futures brokerage, financial futures brokerage and asset management, equity investment and corporate management services, investment management, raising and management of investment funds, investment management of equity investment, investment consulting, project consulting.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as issued by the International Accounting Standards Board (“IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622).

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets/liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, which have been measured at fair value, as further explained in the respective accounting policies below. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.1 Amendments to the accounting standards effective in 2019 and adopted by the Group

(1)	IFRIC 23	Uncertainty over Income Tax Treatments
(2)	IFRS 16	Leases
(3)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 - 2017 Cycle
(4)	Amendments to IFRS 9	Prepayment Features with Negative Compensation
(5)	Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailement or Settlement
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

(1) IFRIC 23: Uncertainty over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

(2) IFRS 16: Leases

IFRS 16 – Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or of short lease term, in the statement of financial position. Specific accounting policies which have been significantly impacted by IFRS 16 are described in Note 3.1(6).

(3) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015 - 2017 Cycle

The Annual Improvements to IFRSs 2015 - 2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments IFRS 3 - Business combinations, the amendments to IFRS 11 - Joint arrangements, the amendments to IAS 12 - Income taxes and the amendments to IAS 23 - Borrowing costs.

(4) Amendments to IFRS 9: Prepayment Features with Negative Compensation

The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. To qualify for amortized cost measurement, the amendments require the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect'. However, the standard does not define 'reasonable compensation' and significant judgement may be required to assess if this test is met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.1 Amendments to the accounting standards effective in 2019 and adopted by the Group (CONTINUED)

(5) Amendments to IAS 19: Employee Benefits Regarding Plan Amendment, Curtailment or Settlement

The IASB issued amendments to IAS 19: Employee benefits regarding plan amendment, curtailment or settlement. These amendments require that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change. Any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling.

(6) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied should be using IFRS 9.

The impacts of IFRS 16 to the Group's financial statement is set out in Note 3.2. There were no significant impacts from the other amendments above on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

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

(1) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group anticipates that the adoption of these amendments will not have any impact on the Group's consolidated financial statements.

(2) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (CONTINUED)

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

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole. The amendment also clarifies the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group’s consolidated financial statements.

(4) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (CONTINUED)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The accounting policies and accounting period of the Company and its subsidiaries are consistent.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

Income or expenses resulted from acquisition or disposal of subsidiaries, from the date on which the Company obtains control to the date on which the Company ceases its control over subsidiaries, are in the scope of consolidation. Intra-group assets and liabilities, equity, income, expenses, and cash flow which are relevant to all intra-group transactions occurred should be offset in consolidation.

A portion of equity over subsidiaries and profit or loss which does not belong to the Company should be treated as non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

3.1 Significant accounting policies

(1) Accounting period

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

(2) Functional and presentation currency

The Company's functional and presentation currency is RMB.

Each entity in the Group determines its own functional currency according to its economic situation. The functional currency is denominated in RMB in consolidated financial statements.

(3) Cash and cash equivalents

Cash comprises cash on hand and demand deposits which are not restricted as to use.

Cash equivalents comprise short term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

(4) Foreign currency transactions and foreign currency translation

The Group adopts the sub-account system to record foreign currency transactions. Foreign currency transactions are initially recorded on the original currency respectively at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. The exchange rate is the central parity rate quoted by the People's Bank of China or authorized bodies. All differences are taken to the consolidated income statement. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions.

The assets and liabilities of foreign operation subsidiaries denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of reporting period for consolidated financial statements. The equity items, excluding "retained earnings", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the rates that approximate the spot exchange rates. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognized in other comprehensive income ("OCI") and accumulated in the foreign exchange translation reserve. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments

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

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the assets and the cash flow characteristics of the assets in the following measurement categories: (i) Amortized cost; (ii) Fair value through other comprehensive income ("FVOCI"); (iii) Fair value through profit or loss ("FVPL").

Business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments (continued)

(a) Initial recognition, classification and measurement of financial instruments (continued)

Financial assets (continued)

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

The classification requirements for debt instruments assets and equity instruments assets are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government bonds, corporate bonds and subordinated bonds. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of the asset.

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

(i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated as at FVPL, are measured at amortized cost.

(ii) Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated as at FVPL, are measured at FVOCI.

(iii) Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments (continued)

(a) Initial recognition, classification and measurement of financial instruments (continued)

Financial assets (continued)

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at FVPL, which is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

Contingent liabilities recognized by buyers should be measured as FVTPL under business combination for entities owned by different ultimate shareholders.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss: (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

(b) Reclassification of financial assets

When the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments (continued)

(c) Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and; (iii) for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses (“ECL”) and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired (“POCI”) financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss allowance). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments (continued)

(c) Subsequent measurement of financial instruments (continued)

Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through other comprehensive income (“OCI”), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument’s amortized cost which are recognized in profit or loss.

Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Group’s right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within “Net investment gains” in the period in which it arises.

Equity instruments

Gains and losses on equity investments at FVPL are included in the “Net investment gains” line in the consolidated income statement.

Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss. The gains and losses from financial liabilities including the effects of credit risk variance should be recognized in current profit and loss by the Group.

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(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments (continued)

(d) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

Default Valuation Adjustments (DVA) are applied to the Group's financial liabilities at fair value through profit or loss, and assumes that DVA stay the same before and after the transfer of the liability. DVA refer to risk that enterprises fail to perform the obligation, including but not limited to their own credit risk.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

(e) Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI.

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(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments (continued)

(e) Impairment of financial assets (continued)

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures the ECL of a financial instrument reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.

Stage 2: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired.

Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

The Group applies the impairment requirements for the recognition and measurement of credit loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in OCI and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date since the credit risk of that financial instrument has increased significantly since initial recognition is no longer met, and the amount of ECL reversal is recognized in profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(5) Financial instruments (continued)

(f) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement. The difference between fair value and carrying amount is recognized as investment income when disposing.

(g) Derecognition of Financial Instruments

A financial asset is derecognized, when one of the following criteria is satisfied: (i) the contractual rights to receive cash flows from the assets have expired; (ii) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; (iii) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control.

When equity financial assets designated as at FVOCI are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to retained earnings. When other financial assets are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net investment gains".

A financial liability is derecognized when it is wholly or partly extinguished, that is when the obligation is wholly or partly discharged. Fair value gains and losses are charged to profit or loss. When financial liabilities designated as at FVPL are derecognized, cumulative gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Otherwise, financial assets and financial liabilities are reported separately.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(6) Leases

(a) Initial measurement of the right-of-use asset and lease liability

Initial measurement of the right-of-use asset

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee. The lease term is defined as the non-cancellable period of the lease for the Group as a lessee.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Initial direct costs are defined as incremental costs. Incremental costs would not have been incurred if a lease had not been obtained.

Initial measurement of the lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

The lessee uses as the discount rate the interest rate implicit in the lease - this is the rate of interest that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(6) Leases (continued)

(b) Subsequent measurement of the right-of-use asset and lease liability

Subsequent measurement of the right-of-use asset

At the commencement date, the Group as a lessee shall measure the right-of-use asset at cost and apply the depreciation requirements in IAS 16 *Property, Plant and Equipment* in depreciating the right-of-use asset. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Subsequent measurement of the lease liability

After the commencement date, the Group shall recognise interest on the lease liability in profit or loss. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

(c) Recognition of short-term leases and leases for which the underlying asset is of low value

Short-term leases are defined as leases with a lease term of less than 12 months from the commencement date. Leases for which the underlying asset is of low value are defined as underlying assets of low value when new. The right-of-use asset and lease liability are not recognized by the Group for short-term leases and leases for which the underlying asset is of low value.

(7) Reverse repurchase agreements and financial assets sold under repurchase agreements

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as original financial assets before transferred. The corresponding liability is included in financial assets sold under repurchase agreements.

Consideration paid for financial assets held under agreements to resell are recorded as reverse repurchase agreements, the related collateral accepted is not recognized in the consolidated financial statements.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is recognized through profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(8) Margin financing and securities lending services

Margin financing and securities lending services refer to the lending of funds by the Group to clients for purchase of securities, or lending of securities by the Group to clients for securities selling, for which the clients provide the Group with collateral.

The Group recognizes margin accounts at initial recognition, and recognizes interest income accordingly. Securities lent are not derecognized, but still accounted for as the original financial assets, and interest income is recognized accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.

(9) Fiduciary wealth management

The Group's fiduciary wealth management business includes targeted asset management, collective asset management and specified asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

(10) Associates

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates.

(11) Investment properties

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased out.

The Group's investment properties are accounted for using the cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(12) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment refer to tangible assets held and controlled by the Group that the Group expects to use for more than one year for using in the supply of services or for administrative purpose. An asset is recognized as property, plant and equipment only if the following criteria are both satisfied:

- (i) It is highly probable that future economic benefits associated with the property, plant and equipment will flow to the Group;
- (ii) The cost of the asset can be measured reliably.

(b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance expenditure are recognized in the profit or loss as incurred. Depreciation of property, plant and equipment is calculated on the straight-line basis monthly.

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment which are required by the operation of the Group are as follows:

Types of property plant and equipment	Estimated useful life	Monthly depreciation rate	Estimated residual value
Properties and buildings	35 years	2.262%	5%
Electronic devices	2 to 5 years	1.667%-4.167%	0%
Transportation vehicles	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	0%
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

The years that the property, plant and equipment were already in use were excluded when determining the estimated useful lives of these types of the property, plant and equipment. The estimated useful life, the estimated residual value and the depreciation method of each type of the property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(12) Property, plant and equipment (continued)

(c) Construction in progress

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalization and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

(13) Intangible assets

Intangible assets are recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognized as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortized on a straight-line basis over the useful period. The useful lives and amortization method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

Trading seat rights at Shanghai and Shenzhen Stock Exchanges are amortized over 10 years (subject to any changes in industry rules subsequently issued) and charged to the consolidated income statement. Outsourcing software is amortized over 5 years. Self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets are amortized over their useful lives.

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed during every accounting period. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

(14) Long-term pre-paid expense

Improvement expenses on property, plant and equipment under operating leases are amortized on a straight-line basis over the shorter of the contractual lease terms and 5 years, while long-term pre-paid expenses are amortized on a straight-line basis over their respective benefit periods but no longer than 10 years.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(15) Revenue

An entity should determine at contract inception whether control of a good or service is transferred over time or at a point in time. The determination should depict the transfer of benefits to the customer and should be evaluated from the customer's perspective.

An entity should first assess whether the performance obligation is satisfied with the following criteria over time. If not, the good or service transfers at a point in time.

- (i) The customer concurrently receives and consumes the benefits provided by the entity's performance as the entity performs.
- (ii) The entity's performance creates or enhances a customer-controlled assets.
- (iii) The entity's performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Where performance of a single service contract takes place over time, revenue should be recognized as performance takes place, excluding the stage of performance cannot be determined.

An entity that cannot reasonably measure the outcome of a performance obligation, but expects to recover the costs incurred, should recognize revenue only to the extent of the cost until a reliable measure of progress can be made.

An entity will recognize revenue at a point in time (when control transfers) for performance obligation that meet the criteria for recognition of revenue at a point in time.

Revenue from underwriting services is recognized when the control of the underwriting services is provided to the client. The revenue is usually recognized upon completion of the offering.

Revenue from the securities brokerage services is recognized on the date of the securities transaction.

Revenue from asset management services is recognized when management services are provided in accordance with the asset management contract.

Revenues from other businesses, including investment banking advisory and sponsoring services are recognized when the contractual obligations are fulfilled.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(15) Revenue (continued)

Interest income of debt investments at amortized costs and FVOCI, is measured by carrying amount and effective interest rate. Interest income of credit impaired financial assets are measured by amortized cost and effective interest rate. Net gains of holding period from financial investments at FVTPL is measured as “Net investment gains”.

(16) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using the liability method on temporary differences arising between the carrying amount of an asset or liability at the end of the reporting period and its tax base.

All taxable temporary differences are recognized as deferred income tax liabilities, except:

- (i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- (i) The deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(16) Income tax (continued)

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. When it is virtually probable that sufficient taxable income will be available, the reduced amount will be reversed accordingly.

Deferred tax assets and liabilities are offset:

- (i) when there is a legally enforceable right to set off deferred tax assets against deferred tax liabilities; and
- (ii) when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(17) Employee compensation

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees or compensate for the termination of labour contract. The compensation payable is recognized as liability in the accounting period of services provided by employee. The employee compensation comprises of short-term compensation, post-employment welfare, termination benefits, and other long-term employee welfares.

Short-term compensation comprises of staff salaries, bonus, allowances, and subsidies, as well as social insurance expenses including employee welfare, medical insurance charge, work-related injury insurance charge, and maternity insurance and also covers housing funds, labour union expenses, personnel education expenses, short-term paid leave, short-term profit-sharing plan, non-monetary welfare and other short-term compensations.

Post-employment welfare plans refer to agreements reached with employees or policies and measures established by the Group in relation to post-employment welfare. The defined contribution plans refer to post-employment welfare plans in which the Group pays contribution to an independent fund and the Group has no further payment obligation.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(18) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognized at nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods stipulated in government documents are recognized as government grants related to assets. Judgements should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic condition are recognized as government grants related to assets, whereas the other grants are related to income.

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released into the consolidated income statement during the period when the expense incurs. Government grants that are to compensate the incurred expenses or losses are recognized into profit or loss directly. Government grants related to assets are recognized as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded in the consolidated income statement directly.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(19) Impairment

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is any indication that assets are impaired. When any such indication exists, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group reduces the carrying amount to recoverable amount. The reduced amounts are recognized in the consolidated income statement and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, if there is indication of impairment, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognizes relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on pro rata basis.

Once the loss of impairment of the above-mentioned assets has been recognized, it will not be reversed in the future accounting period.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(20) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties.

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(21) Contingencies

The obligation pertinent to contingencies shall be recognized as provisions when the following conditions are satisfied concurrently:

- the obligation is a present obligation of the Group;
- the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and
- the amount of the obligation can be reliably measured.

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the reporting period. If there is substantial evidence that the amount of provisions cannot reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that a rise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

(22) Perpetual bonds

Perpetual bonds issued by the Group, which satisfied with the following criteria are classified as equity instruments:

- (i) Financial instruments exclude those are settled on a net basis in cash (or other financial assets);
- (ii) Financial instruments must or can be settled on own equity: (a) For non-derivative contracts, they exclude those are settled gross by delivery of a variable number of own shares; (b) Derivative contracts that result in the delivery of a fixed amount of cash or other financial assets for a fixed number of an entity's own equity instruments.

Dividends for the perpetual bonds, which are classified as equity instruments, are accounted for as profit distribution.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Significant accounting policies (continued)

(23) Profit distribution

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory surplus reserve, 10% of after-tax profit for a general risk reserve, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve. In addition, with the approval from the Annual General Meeting, the Company may appropriate certain proportions of net profit for a discretionary surplus reserve after setting aside the statutory surplus reserve. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General risk reserve and transaction risk reserve sets aside by the Company are used to make up for any losses arising from securities transactions. The Company's reserve funds are used to make up for any losses of the Company, expand the Company's business or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve funds are converted to capital, the balance of the statutory reserve funds cannot be less than 25% of the Company's registered capital.

Dividends proposed by the directors are not deducted from equity, until they have been approved by the ordinary equity holders in the Annual General Meeting. When these dividends have been approved by the ordinary equity holders, they are recognized as a liability.

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**3.2 The impact of changes in principal accounting policies**

The Group has adopted IFRS 16 from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

In applying IFRS 16, the Group adopted the practical expedients permitted by the standard, which uses a single discount rate to a portfolio of leases with reasonably similar characteristics. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 ranged from 3.89% to 4.75%. The adoption of the expedients has no significant impact on the Group's consolidated financial statements.

As permitted by the standard, operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were recognized as short-term leases. No right-of-use assets and lease liabilities were recognized for short-term leases and low-value leases. The adoption of the expedients has no significant impact on the Group's consolidated financial statements.

Operating lease commitments disclosed as at 31 December 2018	1,281,024
(Less): short-term leases recognized on a straight-line basis as expense	58,130
(Less): low-value leases recognized on a straight-line basis as expense	241
(Less): others	58,883
Subtotal	<u>1,163,770</u>
(Less): taxes	56,758
Adjusted operating lease commitments	<u>1,107,012</u>
As at 1 January 2019, the date of initial application, lease liabilities discounted using the Group's incremental borrowing rates	<u>1,015,112</u>
Of which are:	
Current lease liabilities	288,900
Non-current lease liabilities	726,212
	<u>1,015,112</u>

Right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the following types of assets:

	31 December 2019	1 January 2019
Properties and buildings	881,240	791,437
Others	220,768	257,053
Total right-of-use assets	<u>1,102,008</u>	<u>1,048,490</u>

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.3 Significant accounting judgements and estimates

During the preparation of the Group's financial statements, management will make judgements, estimates and assumptions about the impact of future uncertainties on revenue, expenses, assets and liabilities, and disclosure of contingent liabilities. At the end of the reporting period, management made the following judgements and main assumptions on major future uncertainties, which might lead to adjustments in the book value of assets and liabilities.

(1) Measurement of the expected credit loss allowance

The measurement of the expected credit loss ("ECL") allowance for debt instruments, including investments in financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of the criteria for significant increase in credit risk ("SICR");
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Inputs, assumptions and estimation techniques

ECL are the discounted product of probability of default having considered the forward-looking impact, exposure at default, and loss given default.

Forward – looking information incorporated in the ECL model

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. These economic variables and their associated impact on the probability of default ("PD") vary by product type. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Details of the significant accounting judgements and estimates above please refer to Note 53.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.3 Significant accounting judgements and estimates (continued)

(2) Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are prepayment of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

(3) Fair Value of Financial Instruments

For financial instruments where there is a lack of active market, the Group uses valuation methods to determine its fair value. Valuation methods include referring to the transaction price determined when fair transactions are conducted between economic entities with complete information and willingness to buy and sell in the market, referring to the fair value of another similar financial instrument in the market, or using discount cash flow analysis and option pricing model to estimate. Valuation methods maximize the use of observable market information. However, when observable market information is unavailable, management will estimate the significant non-observable information included in the valuation methods.

(4) Income tax

The Group needs to make a judgement on future tax treatment of certain transactions to confirm income tax. In accordance with relevant tax regulations, the Group carefully judges the impact of income tax on transactions and accordingly calculates income tax. The deferred income tax assets can only be recognized when there is a possibility of future taxable profits and can be used to offset the temporary differences. This requires a major judgement on the tax treatment of certain transactions and a significant estimate of the possibility of having sufficient future taxable profits to offset deferred income tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.3 Significant accounting judgements and estimates (continued)

(5) Consolidation of Structured Entities

Management needs to make important judgements on whether to control and consolidate structured entities, confirming whether it will affect accounting treatment and the financial situation and operating results of the Group.

In assessing control, the Group needs to consider: 1) the power of the investor to the investee; 2) the variable return enjoyed by the investee in the relevant activities; and 3) the ability to use the power of the investee to influence the amount of its return. If one or more of the three control elements mentioned above change, the Group will reassess whether control still exists.

In judging whether the Group controls the structured entities, it also needs to consider whether the Group's decision-making behavior is carried out as a principal or as an agent. Considerations usually include the scope of decision-making power of the Group to the structured entities, the substantive rights enjoyed by other parties, the level of remuneration of the Group, and the risk that the Group bears variable returns for holding other interests of the structured entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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4 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

(1) Income tax

From 1 January 2008, the “Enterprise Income Tax Law of the PRC” and the “Regulations on the Implementation of Enterprise Income Tax Law of the PRC” became effective for the Company and its subsidiaries excluding China Futures Co., Ltd. and China Securities (International) Finance Holding Co., Ltd. Income tax computation and payment are governed by the “Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations” (Public Notice of the State Administration of Taxation [2012] No. 57). The PRC Enterprise income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

The income tax rate for China Securities (International) Finance Holding Co., Ltd. (a Hong Kong Company) is 16.5%.

(2) Value added tax

Pursuant to the “Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the “VAT Pilot Programs”)” (Cai Shui [2016] No. 36), the “Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the “Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions” (Cai Shui [2016] No.70) issued by the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%.

In accordance with the “Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services” (Cai Shui [2016] No.140), the “Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products” (Cai Shui [2017] No.2) and the “Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products” (Cai Shui [2017] No.56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018.

After the implementation of the VAT Pilot Programs, the Group’s related income is presented at value net of its respective VAT in the consolidated income statement.

(3) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively. In addition, according to the provisions of “Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing” (Jin Zheng Fa [2011] No. 72), since 1 January 2012, the local educational surcharges of the Company’s head office and securities trading department located in Beijing are levied at 2% of the total amount of value-added tax.

(4) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities.

Wealth management segment: serves as a brokerage agent for corporate and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients.

Trading and institutional client services segment: engages in trading of financial products; serves as a brokerage agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialized research and advisory services to assist their investment decision-making.

Investment management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

CSC Financial Co., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 OPERATING SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2019					Total
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	
Segment revenue and other income						
Fee and commission income	3,869,173	2,805,793	875,551	1,082,148	-	8,632,665
Interest income	-	3,654,054	1,860,886	28,477	699,630	6,243,047
Net investment gains	-	-	3,807,339	599,171	-	4,406,510
Other income	3,858	52,578	331	22,167	46,238	125,172
Total revenue and other income	3,873,031	6,512,425	6,544,107	1,731,963	745,868	19,407,394
Segment expenses	(1,741,542)	(5,087,210)	(4,507,611)	(606,111)	(303,574)	(12,246,048)
Including: Interest expenses	(13,275)	(1,777,158)	(2,774,316)	(85,489)	(33,668)	(4,683,906)
Credit impairment (losses)/reversal	(5,041)	68,231	(4,469)	-	709	59,430
Operating profit	2,131,489	1,425,215	2,036,496	1,125,852	442,294	7,161,346
Share of profits and losses of associates	-	-	-	(8,378)	772	(7,606)
Profit before income tax	2,131,489	1,425,215	2,036,496	1,117,474	443,066	7,153,740
Income tax expense						(1,624,092)
Net profit for the year						5,529,648
Total assets	15,488,935	87,014,335	139,656,556	12,514,812	30,994,987	285,669,625
Total Liabilities	16,183,468	85,453,116	110,649,632	9,039,119	7,449,556	228,774,891
Other segment information:						
Depreciation and amortization	149,436	165,847	160,601	62,815	33,835	572,534
Capital expenditure	75,797	87,787	84,729	25,809	16,144	290,266

CSC Financial Co., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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5 OPERATING SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2018					Total
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	
Segment revenue and other income						
Fee and commission income	3,315,909	2,138,373	814,164	963,236	-	7,231,682
Interest income	-	4,199,034	1,954,304	38,181	572,675	6,764,194
Net investment gains	-	-	1,903,580	513,318	-	2,416,898
Other income	2,445	43,926	(6,524)	10,323	28,898	79,068
Total revenue and other income	3,318,354	6,381,333	4,665,524	1,525,058	601,573	16,491,842
Segment expenses	(1,509,888)	(6,282,873)	(3,805,570)	(601,349)	(248,593)	(12,448,273)
Including: Interest expenses	(88,586)	(2,232,980)	(2,328,462)	(120,822)	-	(4,770,850)
Credit impairment losses	(4,096)	(1,094,400)	(51,767)	(2,970)	(672)	(1,153,905)
Operating profit	1,808,466	98,460	859,954	923,709	352,980	4,043,569
Share of profits and losses of associates	-	-	-	9,865	(1,991)	7,874
Profit before income tax	1,808,466	98,460	859,954	933,574	350,989	4,051,443
Income tax expense						(948,015)
Net profit for the year						3,103,428
Total assets	162,883	63,400,418	101,417,703	14,750,587	15,350,722	195,082,313
Total Liabilities	2,275,166	64,834,560	63,544,538	10,846,805	5,717,847	147,218,916
Other segment information:						
Depreciation and amortization	64,851	78,799	63,149	24,443	18,367	249,609
Capital expenditure	43,034	53,225	42,052	21,781	12,773	172,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
Brokerage services income	3,557,079	2,849,065
Investment banking income	3,869,173	3,315,909
Asset and fund management income	1,082,148	963,236
Others	124,265	103,472
	<hr/>	<hr/>
Total	8,632,665	7,231,682

7 INTEREST INCOME

	Year ended 31 December	
	2019	2018
Margin financing and securities lending	1,955,265	2,743,325
Bank deposits	1,801,032	1,555,543
Financial assets at fair value through other comprehensive income	1,259,229	1,215,444
Financial assets held under resale agreements	1,221,991	1,222,325
Financial assets at amortized costs	5,530	27,320
Others	-	237
	<hr/>	<hr/>
Total	6,243,047	6,764,194

8 NET INVESTMENT GAINS

	Year ended 31 December	
	2019	2018
Net gains from disposal of financial assets at fair value through other comprehensive income	157,198	89,402
Net gains from disposal of financial assets at amortized costs	1,088	-
Net gains from financial assets at fair value through profit or loss	5,140,331	889,718
Dividend income from financial assets at fair value through other comprehensive income	102,022	262,695
Net losses from financial liabilities at fair value through profit or loss	(14,313)	(74,667)
Net (losses)/gains from derivatives	(472,730)	1,585,289
Net gains attributable to other interest holders of consolidated structured entities	(507,086)	(360,833)
Gains on disposal of an associated company	-	25,294
	<hr/>	<hr/>
Total	4,406,510	2,416,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9 OTHER INCOME

	Year ended 31 December	
	2019	2018
Government grants	50,137	28,143
Commodity trading income	27,721	-
Rental income	13,790	16,160
Gains on disposal of property, plant and equipment	334	231
Net gains/(losses) on foreign exchange	287	(22,371)
Others	32,903	56,905
Total	125,172	79,068

10 EXPENSES

	Year ended 31 December	
	2019	2018
Fee and commission expenses:		
Brokerage expenses	710,396	557,809
Investment banking expenses	184,525	181,250
Others	112,700	63,688
Total	1,007,621	802,747
Interest expenses:		
Bonds in issue and short-term financing instruments payable	2,888,236	2,818,937
Financial assets sold under repurchase agreements	1,175,727	1,106,105
Placements from banks and other financial institutions	310,131	555,027
Accounts payable to brokerage clients	178,936	155,269
Lease liabilities	39,356	-
Borrowings	26,442	64,389
Others	65,078	71,123
Total	4,683,906	4,770,850
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	3,982,057	3,212,391
Staff benefits	427,119	431,745
Contributions to defined contribution schemes (i)	300,378	309,946
Total	4,709,554	3,954,082

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10 EXPENSES (CONTINUED)

- (i) Retirement benefits are included, and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to these government-sponsored retirement plans for active employees, which are expensed as incurred. The Group has no obligation for post-retirement benefits beyond these contributions.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Year ended 31 December	
	2019	2018
Depreciation and amortization expenses	572,534	249,609
Business travel expenses	173,848	167,330
Electronic equipment operating expenses	159,209	179,196
Office operating expenses	128,333	119,414
Business entertainment expenses	105,287	93,970
Postal and communication expenses	100,647	97,243
Membership fees of exchanges	89,602	68,837
Securities investor protection fund	60,520	47,318
Vehicle operating expenses	59,503	61,812
Leasing expenses	55,525	367,058
Auditors' remuneration	6,450	4,389
Including: Audit service	6,226	3,927
Non-audit service	224	462
Others	294,342	230,585
Total	<u>1,805,800</u>	<u>1,686,761</u>

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11 DIRECTORS' AND SUPERVISORS' REMUNERATION

(1) Details of the directors' and supervisors' remuneration before tax are as follows:

Name	Year ended 31 December 2019					
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	Total remuneration before tax
Executive Directors						
Wang Changqing (Chairman)						
Current year	1,996	1,400	-	-	117	3,513
31 December 2015	-	-	2,530	-	-	2,530
31 December 2014	-	-	4,000	-	-	4,000
Li Geping (President) (ii)						
Current year	1,870	1,400	-	-	112	3,382
Non-executive Directors						
Yu Zhongfu	-	-	-	-	-	-
Zhang Qin (iii)	-	-	-	-	-	-
Zhu Jia (iii)	-	-	-	-	-	-
Wang Hao	-	-	-	-	-	-
Wang Bo (iii)	-	-	-	-	-	-
Xu Gang	-	-	-	-	-	-
Dong Shi (iv)	-	-	-	-	-	-
Independent Non-executive Directors						
Feng Genfu	-	-	-	210	-	210
Zhu Shengqin	-	-	-	210	-	210
Dai Deming	-	-	-	210	-	210
Bai Jianjun	-	-	-	210	-	210
Liu Qiao	-	-	-	210	-	210
Supervisors						
Li Shihua						
Current year	1,442	1,700	-	-	95	3,237
31 December 2015	-	-	2,530	-	-	2,530
31 December 2014	-	-	3,100	-	-	3,100
Lin Xuan (v)						
Current year	1,594	1,500	-	-	91	3,185
31 December 2015	-	-	4,000	-	-	4,000
Zhao Ming (vi)						
Current year	794	2,000	-	-	61	2,855
Lu Ya (x)						
Current year	285	-	-	-	24	309
31 December 2015	-	-	2,600	-	-	2,600
Ai Bo	-	-	-	-	-	-
Zhao Lijun (v)	-	-	-	-	-	-
Total	7,981	8,000	18,760	1,050	500	36,291

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11 DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(1) Details of the directors' and supervisors' remuneration before tax are as follows (continued):

Name	Year ended 31 December 2018					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Executive Directors						
Wang Changqing (Chairman)						
Current year	2,067	1,750	-	-	122	3,939
31 December 2013	-	-	4,000	-	-	4,000
Qi Liang (President) (vii)						
Current year	840	1,800	-	-	48	2,688
31 December 2013	-	-	4,000	-	-	4,000
Li Geping (President) (ii)						
Current year	1,602	-	-	-	93	1,695
Non-executive Directors						
Yu Zhongfu	-	-	-	-	-	-
Dong Shi (iv)	-	-	-	-	-	-
Zhang Qin (iii)	-	-	-	-	-	-
Zhu Jia (iii)	-	-	-	-	-	-
Wang Hao	-	-	-	-	-	-
Wang Bo (iii)	-	-	-	-	-	-
Xu Gang	-	-	-	-	-	-
Wang Chenyang (viii)	-	-	-	-	-	-
Wang Shouye (viii)	-	-	-	-	-	-
Hu Donghui (viii)	-	-	-	-	-	-
Independent Non-executive Directors						
Feng Genfu	-	-	-	230	-	230
Zhu Shengqin	-	-	-	230	-	230
Dai Deming	-	-	-	230	-	230
Bai Jianjun	-	-	-	230	-	230
Liu Qiao	-	-	-	230	-	230
Supervisors						
Li Shihua						
Current year	1,482	1,800	-	-	100	3,382
31 December 2013	-	-	2,000	-	-	2,000
Ai Bo	-	-	-	-	-	-
Zhao Lijun (v)	-	-	-	-	-	-
Lu Ya (x)						
Current year	1,171	1,860	-	-	93	3,124
31 December 2014	-	-	1,100	-	-	1,100
Lin Xuan (v)						
Current year	1,533	2,400	-	-	96	4,029
31 December 2014	-	-	1,900	-	-	1,900
Wu Lili (ix)	465	220	-	-	69	754
Wang Jing (ix)	-	-	-	-	-	-
Liu Hui (ix)	-	-	-	-	-	-
Total	9,160	9,830	13,000	1,150	621	33,761

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11 DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(1) Details of the directors' and supervisors' remuneration before tax are as follow (continued):

(i) For the year ended 31 December 2019, Executive Director Wang Changqing received deferred bonuses for the year ended 31 December 2015 of RMB2.53 million and for the year ended 31 December 2014 of RMB4.00 million, Supervisor Li Shihua received deferred bonuses for the year ended 31 December 2015 of RMB2.53 million and for the year ended 31 December 2014 of RMB3.10 million, Supervisor Lin Xuan received deferred bonuses for the year ended 31 December 2015 of RMB4.00 million, Supervisor Lu Ya received deferred bonuses for the year ended 31 December 2015 of RMB2.60 million.

For each of the years ended 31 December 2019 and 31 December 2018, no directors and supervisors waived their remuneration. For non-executive directors and supervisors whose remuneration were not paid by the Group was shown as zero in tables.

- (ii) Li Geping was appointed as executive director in April 2018.
 - (iii) Zhang Qin, Zhu Jia and Wang Bo were appointed as non-executive director in April 2018.
 - (iv) Dong Shi resigned as non-executive director in November 2019.
 - (v) Lin Xuan and Zhao Lijun were appointed as supervisor in April 2018.
 - (vi) Zhao Ming was appointed as supervisor in April 2019.
 - (vii) Qi Liang resigned as Executive Director in April 2018.
 - (viii) Wang Chenyang, Wang Shouye and Hu Donghui resigned as non-executive director in April 2018.
 - (ix) Wu Lili, Wang Jing and Liu Hui resigned as supervisor in April 2018.
 - (x) Lu Ya resigned as supervisor in April 2019.
- (2) Other benefits and rights of directors and supervisors

For each of the years ended 31 December 2019 and 31 December 2018, no emoluments were paid by the Group to any of the persons who were directors, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the contributions to social pension schemes and corporate pension schemes, there were no other retirement benefits for directors or supervisors; meanwhile, there were no consideration provided to third parties for making available directors' and supervisor' services.

For each of the years ended 31 December 2019 and 31 December 2018, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly. In addition, the Group did not provide any guarantees or securities to certain controlled body corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

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12 FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2019 and 31 December 2018, the five highest paid employees excluded directors and supervisors are as follows:

	Year ended 31 December	
	2019	2018
Salaries, allowances and other benefits	6,397	10,053
Discretionary bonuses	24,390	18,747
Discretionary deferred bonuses	34,704	6,500
Retirement benefits	440	403
Total	65,931	35,703

The number of these individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December	
	2019	2018
RMB6,000,001 to RMB7,000,000 yuan	-	1
RMB7,000,001 to RMB8,000,000 yuan	-	4
RMB11,000,001 to RMB12,000,000 yuan	1	-
RMB13,000,001 to RMB14,000,000 yuan	3	-
RMB14,000,001 to RMB15,000,000 yuan	1	-
Total	5	5

For each of the years ended 31 December 2019 and 31 December 2018, no remunerations were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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13 CREDIT IMPAIRMENT (REVERSES)/LOSSES

	<u>Year ended 31 December</u>	
	2019	2018
Financial assets at fair value through other comprehensive income	17,254	5,819
Margin financing	(53,203)	1,075,771
Financial assets held under resale agreements	(22,729)	75,071
Financial assets at amortized costs	(5,079)	(7,552)
Others	4,327	4,796
	<u>4,327</u>	<u>4,796</u>
Total	<u>(59,430)</u>	<u>1,153,905</u>

14 INCOME TAX EXPENSE

(1) Income tax

	<u>Year ended 31 December</u>	
	2019	2018
Current income tax		
- Mainland China	1,383,477	882,244
- Hong Kong	(14,139)	24,651
	<u>1,383,477</u>	<u>906,895</u>
Subtotal	1,369,338	906,895
Deferred income tax	254,754	41,120
	<u>254,754</u>	<u>41,120</u>
Total	<u>1,624,092</u>	<u>948,015</u>

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14 INCOME TAX EXPENSE (CONTINUED)

(2) Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	<u>Year ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Profit before income tax	7,153,740	4,051,443
Income tax at the PRC statutory income tax rate	1,788,435	1,012,861
Effects of different applicable rates of tax prevailing in various jurisdictions	(3,579)	(13,407)
Non-deductible expenses	26,721	20,501
Non-taxable income	(103,942)	(75,291)
Others	(83,543)	3,351
Income tax expenses at the Group's effective income tax rate	<u>1,624,092</u>	<u>948,015</u>

15 DIVIDENDS

	<u>Year ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Dividends on ordinary shares proposed but not paid	1,376,349	1,376,351
Distribution to other equity instrument holders (Note 16(i))	371,418	294,000

A final dividend of RMB2.35 (tax inclusive) per 10 ordinary shares related to the year of 2019, amounting to RMB1,797 million (tax inclusive) in total has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2018, amounting to RMB1,376 million (tax inclusive) in total and based on 7,646,385,238 shares was approved at the annual general meeting held on 25 June 2019.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2017, amounting to RMB1,376 million (tax inclusive) in total and based on 7,646,385,238 shares was approved at the 2018 second extraordinary general meeting held on 30 October 2018.

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16 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share was calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding. The calculations of basic and diluted earnings per share are based on:

	<u>Year ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Earnings:		
Profit attributable to equity holders of the Company	5,501,688	3,087,460
Less: Profit attributable to other equity instrument holders of the Company (i)	<u>(371,418)</u>	<u>(294,000)</u>
Profit attributable to ordinary equity holders of the Company	<u>5,130,270</u>	<u>2,793,460</u>
Shares:		
Weighted average number of ordinary shares in issue (thousand) (Note 44)	<u>7,646,385</u>	<u>7,458,988</u>
Basic and diluted earnings per share (in RMB yuan)	<u>0.67</u>	<u>0.37</u>

There were no dilutive shares during the years ended 31 December 2019 (years ended 31 December 2018: None).

- (i) The Company issued a tranche of perpetual subordinated bonds during the year ended 31 December 2019 and issued two tranches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detailed in Note 45 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, profit attributable to other equity holders was deducted from the profit attributable to ordinary equity holders of the Company.

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17 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2019	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
Increases	3,552	154,919	282	574	1,490	450	961	162,228
Decreases	(6,961)	(67,461)	(759)	(769)	(3,727)	(799)	(1,223)	(81,699)
31 December 2019	428,063	697,128	36,696	7,475	77,809	8,850	38,286	1,294,307
Accumulated depreciation								
1 January 2019	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
Increases	(12,593)	(80,745)	(1,517)	(500)	(5,950)	(596)	(1,983)	(103,884)
Decreases	690	67,611	736	746	3,676	754	1,204	75,417
31 December 2019	(134,082)	(504,848)	(33,897)	(5,972)	(72,414)	(7,036)	(32,620)	(790,869)
Net carrying amount								
31 December 2019	293,981	192,280	2,799	1,503	5,395	1,814	5,666	503,438

CSC Financial Co., Ltd.

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17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2018	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Increases	-	50,746	563	432	3,072	347	1,913	57,073
Decreases	-	(14,319)	(941)	(88)	(1,565)	(364)	(12)	(17,289)
31 December 2018	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
Accumulated depreciation								
1 January 2018	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Increases	(11,712)	(93,388)	(2,069)	(662)	(9,493)	(625)	(2,086)	(120,035)
Decreases	-	13,526	913	86	1,534	353	12	16,424
31 December 2018	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
Net carrying amount								
31 December 2018	309,293	117,956	4,057	1,452	9,906	2,005	6,707	451,376

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18 RIGHT-OF-USE ASSETS

	Properties and buildings	Others	Total
Cost			
31 December 2018			
Change in accounting policy	791,437	257,053	1,048,490
1 January 2019	791,437	257,053	1,048,490
Increases	386,516	1,268	387,784
Decreases	(1,348)	-	(1,348)
Foreign currency translation differences	4,226	-	4,226
31 December 2019	<u>1,180,831</u>	<u>258,321</u>	<u>1,439,152</u>
Accumulated depreciation			
31 December 2018			
Change in accounting policy	-	-	-
1 January 2019	-	-	-
Increases	(299,964)	(37,553)	(337,517)
Decreases	667	-	667
Foreign currency translation differences	(294)	-	(294)
31 December 2019	<u>(299,591)</u>	<u>(37,553)</u>	<u>(337,144)</u>
Net carrying amount			
31 December 2019	881,240	220,768	1,102,008
31 December 2018			

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19 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
1 January 2019	429,994	75,938	505,932
Increases	115,829	-	115,829
Decreases	(3,308)	-	(3,308)
Foreign currency translation differences	81	10	91
31 December 2019	<u>542,596</u>	<u>75,948</u>	<u>618,544</u>
Accumulated amortization			
1 January 2019	(249,417)	(69,600)	(319,017)
Increases	(66,737)	-	(66,737)
Decreases	3,078	-	3,078
Foreign currency translation differences	50	-	50
31 December 2019	<u>(313,026)</u>	<u>(69,600)</u>	<u>(382,626)</u>
Net carrying amount			
31 December 2019	<u>229,570</u>	<u>6,348</u>	<u>235,918</u>
	Software	Trading seat rights and others	Total
Cost			
1 January 2018	354,791	75,918	430,709
Increases	74,770	-	74,770
Decreases	(39)	-	(39)
Foreign currency translation differences	472	20	492
31 December 2018	<u>429,994</u>	<u>75,938</u>	<u>505,932</u>
Accumulated amortization			
1 January 2018	(191,217)	(69,600)	(260,817)
Increases	(57,910)	-	(57,910)
Decreases	39	-	39
Foreign currency translation differences	(329)	-	(329)
31 December 2018	<u>(249,417)</u>	<u>(69,600)</u>	<u>(319,017)</u>
Net carrying amount			
31 December 2018	<u>180,577</u>	<u>6,338</u>	<u>186,915</u>

CSC Financial Co., Ltd.

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20 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries

31 December 2019	31 December 2018
5,333,123	4,093,123

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights As at 31 December 2019	Proportion of voting rights 2018	Directly/Indirectly hold	Principal activities
China Futures Co., Ltd.	Chongqing	Chongqing	RMB700 million	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd. (i)	Beijing	Beijing	RMB1,650 million	100%	100%	Directly	Project investment
China Securities (International) Finance Holding Co., Ltd.	Hong Kong	Hong Kong	Not applicable	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB300 million	55%	55%	Directly	Funds business, asset management
China Securities Investment Co., Ltd. (i)	Beijing	Beijing	RMB3,700 million	100%	100%	Directly	Investment management, equity investment management, investment consultancy and project management

(i) During the year 2019, the Company increased capital investment of RMB100 million and RMB1,140 million in China Capital Management Co., Ltd. and China Securities Investment Co., Ltd., respectively.

(ii) China Securities (International) Finance Holding Co., Ltd. is registered as a limited company according to the laws of Hong Kong, China. Others are registered as limited liability companies according to the laws of the People's Republic of China.

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21 INVESTMENTS IN ASSOCIATES

	31 December 2019	31 December 2018
Investments in associates	<u>269,512</u>	<u>162,713</u>

The following table illustrates details of investments in associates:

Name	1 January 2019	Increase	Decrease	Movement using the equity method	31 December 2019
Zhongguancun Equity Trading Service Group Co., Ltd.	47,565	-	-	(1,741)	45,824
Jiangsu DDBS Environment Remediation Co., LTD	44,075	-	-	1,137	45,212
Beijing Tinavi Medical Technology Co., Ltd.	23,723	-	-	(3,706)	20,017
Guangdong South Lead TV & Film Co., Ltd.	30,000	-	-	(2,237)	27,763
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	-	116,857	-	1,161	118,018
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	15,000	-	-	(3,574)	11,426
Beijing Haifu Capital Management Co., Ltd.	1,250	-	-	2	1,252
Xinjin Global Industrial Fund LP	1,100	-	(1,100)	-	-
Total	<u>162,713</u>	<u>116,857</u>	<u>(1,100)</u>	<u>(8,958)</u>	<u>269,512</u>

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21 INVESTMENT IN ASSOCIATES (CONTINUED)

Name	1 January 2018	Increase	Decrease	Movement using the equity method	31 December 2018
Zhongguancun Equity Trading Service Group Co., Ltd.	48,424	-	-	(859)	47,565
Jiangsu DDBS Environment Remediation Co., LTD	42,066	-	-	2,009	44,075
Beijing Tinavi Medical Technology Co., Ltd.	25,000	-	(1,277)	-	23,723
Guangdong South Lead TV & Film Co., Ltd.	30,000	-	-	-	30,000
CITIC Agri Fund Management Co., Ltd	2,070	-	(2,070)	-	-
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	38,482	-	(46,337)	7,855	-
CITIC Engineering Equity Investment Fund Management (Wuhan) Co., Ltd.	5,250	-	(5,250)	-	-
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	15,000	-	-	-	15,000
Beijing Haifu Capital Management Co., Ltd.	-	1,250	-	-	1,250
Xinjin Global Industrial Fund LP	-	1,100	-	-	1,100
Total	206,292	2,350	(54,934)	9,005	162,713

As at 31 December 2019 and 31 December 2018, given there was no sign of impairment on the Group's investments in associates, no impairment allowance was made.

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22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Current		
Financial assets at fair value through profit or loss		
Debt instruments	50,723,715	30,800,069
Equity investments	8,073,044	2,381,992
Fund investments	8,081,851	5,016,279
Others	<u>21,581,292</u>	<u>16,149,404</u>
Subtotal	<u>88,459,902</u>	<u>54,347,744</u>
Analyzed into:		
Listed in Hong Kong	1,768,887	1,183,452
Listed outside Hong Kong	69,129,269	37,985,448
Unlisted	<u>17,561,746</u>	<u>15,178,844</u>
Subtotal	<u>88,459,902</u>	<u>54,347,744</u>
Non-current		
Financial assets at fair value through profit or loss		
Equity investments	3,103,611	1,954,384
Others	<u>192,420</u>	<u>1,023,942</u>
Subtotal	<u>3,296,031</u>	<u>2,978,326</u>
Analyzed into:		
Listed outside Hong Kong	1,141,393	190,240
Unlisted	<u>2,154,638</u>	<u>2,788,086</u>
Subtotal	<u>3,296,031</u>	<u>2,978,326</u>
Total	<u>91,755,933</u>	<u>57,326,070</u>

As at 31 December 2019, the fair value of financial assets pledged as collateral for repurchase agreements (Note 37), placements from China Securities Finance Corporation Limited ("CSF"), short-term borrowings (Note 40), futures business and securities borrowing business by the Group totaled RMB39,212.31 million (31 December 2018: RMB22,019.04 million).

As at 31 December 2019, financial assets held by the Group included securities lent amounted to RMB624.53 million (31 December 2018: RMB45.02 million).

As at 31 December 2019, the fair value of financial assets at fair value through profit or loss (mandatory) in restricted period held by the Group was RMB1,154.27 million (31 December 2018: RMB18.09 million).

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23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
Non-current		
Equity instruments (i)	<u>3,153,312</u>	<u>3,003,549</u>
Analyzed into:		
Unlisted	<u>3,153,312</u>	<u>3,003,549</u>
Current		
Debt instruments	32,430,035	27,911,317
Equity instruments	<u>60,488</u>	<u>54,263</u>
Subtotal	<u>32,490,523</u>	<u>27,965,580</u>
Analyzed into:		
Listed in Hong Kong	890,954	54,263
Listed outside Hong Kong	31,599,569	27,861,137
Unlisted	<u>-</u>	<u>50,180</u>
Subtotal	<u>32,490,523</u>	<u>27,965,580</u>
Total	<u><u>35,643,835</u></u>	<u><u>30,969,129</u></u>

- (i) Equity instruments assets at fair value through other comprehensive income are the specific accounts invested by the Company together with several other securities companies and managed by CSF. According to the relevant contracts, risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSF. The Company manages these financial assets for purposes other than to generate investment returns.

As at 31 December 2019, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,153.31 million, respectively (31 December 2018: cost and fair value were RMB3,075.00 million and RMB3,003.55 million, respectively).

- (ii) As at 31 December 2019, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which have been pledged as collateral for repurchase agreements (Note 37), placements from CSF, short-term borrowings (Note 40) and securities borrowing business were RMB24,019.91 million (31 December 2018: RMB20,429.96 million).

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24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	31 December 2019	31 December 2018
Non-current		
Analyzed by collateral:		
Stock	2,512,486	3,473,093
Allowance for impairment losses	<u>(5,210)</u>	<u>(24,076)</u>
Subtotal	<u>2,507,276</u>	<u>3,449,017</u>
Current		
Analyzed by collateral:		
Stock	12,561,744	10,462,732
Debts	6,036,856	9,841,933
Others	<u>104,549</u>	<u>139,075</u>
	18,703,149	20,443,740
Allowance for impairment losses	<u>(91,669)</u>	<u>(95,520)</u>
Subtotal	<u>18,611,480</u>	<u>20,348,220</u>
Total	<u>21,118,756</u>	<u>23,797,237</u>

The Group received securities as collateral in connection with financial assets under resale agreements, some of which are allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

The fair value of the collateral received in connection with financial assets under resale agreements, the collateral allowed to be re-pledged and the collateral re-pledged were as below:

	31 December 2019	31 December 2018
Collateral received	56,537,257	40,733,860
Including: Collateral allowed to be re-pledged	187,314	1,056,752
Collateral re-pledged	<u>83,282</u>	<u>887,603</u>

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25 REFUNDABLE DEPOSITS

	31 December 2019	31 December 2018
Performance bonds	2,400,221	1,330,872
Trading deposits	362,194	520,452
Credit deposits	31,196	29,230
	<hr/>	<hr/>
Total	2,793,611	1,880,554

26 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax assets and deferred tax liabilities are as follow:

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2019	529,303	84,035	335,650	25,518	974,506
Credited/(debited) to the consolidated income statement	65,382	(69,378)	(40,064)	33,812	(10,248)
Credited/(debited) to other comprehensive income	-	(817)	51	373	(393)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2019	594,685	13,840	295,637	59,703	963,865

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2018	631,255	88,000	50,077	8,130	777,462
Credited/(debited) to the consolidated income statement	(101,952)	74,454	284,950	17,388	274,840
Credited/(debited) to other comprehensive income	-	(78,419)	623	-	(77,796)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2018	529,303	84,035	335,650	25,518	974,506

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26 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Changes of deferred tax assets and deferred tax liabilities are as follow (Continued):

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2019	331,291	11,351	342,642
Debited/(credited) to the consolidated income statement	253,632	(9,126)	244,506
Debited/(credited) to other comprehensive income	73,626	100	73,726
31 December 2019	<u>658,549</u>	<u>2,325</u>	<u>660,874</u>

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2018	23,628	1,859	25,487
Debited to the consolidated income statement	306,468	9,492	315,960
Debited to other comprehensive income	1,195	-	1,195
31 December 2018	<u>331,291</u>	<u>11,351</u>	<u>342,642</u>

27 OTHER NON-CURRENT ASSETS

As at 31 December 2019 and 31 December 2018, other non-current assets of the Group primarily represented long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

28 MARGIN ACCOUNTS

	31 December 2019	31 December 2018
Margin accounts		
- Individuals	26,694,162	23,181,956
- Institutions	<u>2,260,327</u>	<u>3,165,251</u>
	28,954,489	26,347,207
Allowance for impairment losses	<u>(1,148,349)</u>	<u>(1,199,124)</u>
Total	<u>27,806,140</u>	<u>25,148,083</u>

Margin accounts are funds that the Group provided to clients in margin financing business. As at 31 December 2019 and 31 December 2018, no margin accounts were pledged for repurchase agreements (Note 37).

As at 31 December 2019, the Group received collateral with fair value amounted to RMB95,680.44 million (31 December 2018: RMB71,398.60 million), in connection with its margin financing business.

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29 ACCOUNTS RECEIVABLE

	31 December 2019	31 December 2018
Clearing funds receivable	128,775	356,704
Assets management fee receivable	85,346	89,704
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	24,494	24,106
Others (ii)	1,905,223	971,701
	<u>2,143,838</u>	<u>1,442,215</u>
Allowance for impairment losses	<u>(6,972)</u>	<u>(2,177)</u>
Total	<u>2,136,866</u>	<u>1,440,038</u>

- (i) ECL on account receivables arising from revenue recognized in accordance with IFRS 15 - Revenue, the Group is measured using simplified approach under IFRS9. ECL on other receivables is measured using the general approach and as at 31 December 2019, account receivables which measured using general approach was classified under Stage 1 (31 December 2018: Stage 1).
- (ii) As at 31 December 2019, others mainly included initial trading deposits for total return swaps of RMB1,655.19 million (31 December 2018: RMB667.57 million).

30 DERIVATIVE FINANCIAL INSTRUMENTS

	<u>As at 31 December 2019</u>		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	142,900,688	87	391
Equity derivatives	71,142,876	939,568	723,540
Credit derivatives	147,000	622	1,463
Others	5,088,463	15,173	36,178
Total	<u>219,279,027</u>	<u>955,450</u>	<u>761,572</u>
	<u>As at 31 December 2018</u>		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	89,898,955	10,734	10,158
Equity derivatives	89,161,627	1,224,396	159,452
Credit derivatives	60,000	-	347
Others	1,306,726	4,454	7,504
Total	<u>180,427,308</u>	<u>1,239,584</u>	<u>177,461</u>

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30 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Under the daily settlement arrangement, any gains or losses of the Group's positions in futures contracts, among others, were settled daily and the corresponding payments or receipts were included in "cash and bank balances". Accordingly, the amount of mark-to-market gains or losses of unexpired futures contracts, among others, included derivative financial instruments above was Nil. As at 31 December 2019, the fair value of the Group's unexpired futures contracts was negative RMB56.12 million (31 December 2018: positive RMB2.55 million).

31 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 34). In Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

32 CASH AND BANK BALANCES

	31 December 2019	31 December 2018
Cash on hand	23	38
Deposits in banks	<u>47,221,032</u>	<u>17,055,771</u>
Total	<u>47,221,055</u>	<u>17,055,809</u>

As at 31 December 2019, the Group had restricted deposits of RMB278.37 million (31 December 2018: RMB206.78 million).

33 OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Interest receivable (i)	33,749	35,957
Commodity Inventories	21,789	-
Prepaid expenses	12,285	9,979
Deferred expenses	6,981	43,794
Others	<u>254,766</u>	<u>290,417</u>
	329,570	380,147
Allowance for impairment losses	<u>(37,855)</u>	<u>(38,847)</u>
Total	<u>291,715</u>	<u>341,300</u>

- (i) As at 31 December 2019 and 31 December 2018, interest income of financial assets accrued under effective interest rate method, which was overdue but not received, was reflected in Interest receivable under other current assets. Interest receivable not yet due were included in the carrying amount of the related financial assets.

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34 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Cash Held on Behalf of Clients (Note 31).

35 LEASE LIABILITIES

	31 December 2019
Non-current	
Lease liabilities	<u>735,122</u>
Current	
Lease liabilities	<u>340,140</u>
Total	<u>1,075,262</u>

As at 31 December 2019, the Group's leases committed but not yet commenced were RMB41.22 million.

36 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Current		
Financial liabilities at fair value through profit or loss (Held for trading)		
Debt instruments	518,161	1,252,581
Financial liabilities designated as at fair value through profit or loss		
Structured notes	<u>608,183</u>	<u>-</u>
Total	<u>1,126,344</u>	<u>1,252,581</u>

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2019	31 December 2018
Current		
Analyzed by collateral:		
Debt securities (Notes 22 and 23)	43,014,064	25,247,836
Gold	4,612,845	833,097
Others (Notes 22)	<u>7,906,066</u>	<u>6,450,942</u>
Total	<u>55,532,975</u>	<u>32,531,875</u>

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38 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Current		
Placements from banks	8,243,359	-
Placements from CSF (Notes 22 and 23)	<u>1,020,186</u>	<u>4,048,839</u>
Total	<u>9,263,545</u>	<u>4,048,839</u>

39 TAXES PAYABLE

	31 December 2019	31 December 2018
Current		
Income tax	324,807	110,820
Value added tax	151,731	134,993
Others	<u>124,056</u>	<u>57,168</u>
Total	<u>600,594</u>	<u>302,981</u>

40 SHORT-TERM BORROWINGS

	31 December 2019	31 December 2018
Current		
Analyzed by nature:		
Credit borrowings	183,287	1,118,475
Mortgage borrowings (Notes 22 and 23)	<u>705,725</u>	<u>-</u>
Total	<u>889,012</u>	<u>1,118,475</u>

As at 31 December 2019 and 31 December 2018, the Group had variable-rate borrowings which carried interest at HIBOR or LIBOR plus a margin.

CSC Financial Co., Ltd.

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41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	Issue date	Maturity date	Coupon rate	1 January 2019	Increase	Decrease	31 December 2019
18 CSC D1	12/02/2018	28/01/2019	5.34%	3,046,921	574	(3,047,495)	-
18 CSC D2	14/05/2018	24/04/2019	4.70%	2,982,426	37,817	(3,020,243)	-
19 CSC CP001	25/04/2019	24/07/2019	3.00%	-	3,016,521	(3,016,521)	-
19 CSC CP002	24/05/2019	22/08/2019	2.99%	-	3,016,957	(3,016,957)	-
19 CSC CP003	14/06/2019	12/09/2019	3.06%	-	3,019,869	(3,019,869)	-
19 CSC CP004	12/07/2019	10/10/2019	2.70%	-	3,017,975	(3,017,975)	-
19 CSC CP005	16/09/2019	13/12/2019	2.75%	-	4,026,448	(4,026,448)	-
19 CSC CP006	09/10/2019	08/01/2020	2.88%	-	4,026,439	-	4,026,439
19 CSC CP007	24/10/2019	22/01/2020	3.02%	-	4,022,774	-	4,022,774
19 CSC CP008	11/12/2019	06/03/2020	3.05%	-	4,007,000	-	4,007,000
Structured notes (i)				7,724,359	25,065,979	(27,350,598)	5,439,740
Total				13,753,706	53,258,353	(49,516,106)	17,495,953

CSC Financial Co., Ltd.

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41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE (CONTINUED)

Name	Issue date	Maturity date	Coupon rate	1 January 2018	Increase	Decrease	31 December 2018
17 CSC D3	22/03/2017	22/03/2018	4.80%	3,112,438	23,277	(3,135,715)	-
17 CSC D4	21/07/2017	21/07/2018	4.74%	3,570,662	86,148	(3,656,810)	-
17 CSC D5	12/09/2017	12/09/2018	4.85%	4,965,232	165,256	(5,130,488)	-
17 CSC D6	20/11/2017	20/11/2018	5.20%	3,926,217	176,519	(4,102,736)	-
18 CSC D1	12/02/2018	28/01/2019	5.34%	-	3,046,921	-	3,046,921
18 CSC D2	14/05/2018	24/04/2019	4.70%	-	2,982,426	-	2,982,426
Structured notes (i)				12,517,218	52,085,115	(56,877,974)	7,724,359
Total				28,091,767	58,565,662	(72,903,723)	13,753,706

As at 31 December 2019 and 31 December 2018, there were no defaults related to any short-term financing instruments payable by the Group.

As at 31 December 2019 and 31 December 2018, the interests of short-term financing instruments payable measured by the effective interest rate method were included in the carrying amount of the related financial instruments, which amounted to RMB71.32 million and RMB265.66 million, respectively.

(i) As at 31 December 2019 and 31 December 2018, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 2.70%-3.70% and 3.00%-5.20%, respectively. The other one accrues interests at floating rate linked to certain stock and commodity indexes.

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42 OTHER CURRENT LIABILITIES

	31 December 2019	31 December 2018
Bonds in issue with maturity within one year (1)	22,751,549	7,202,701
Accounts payable to underwriting clients	15,069,150	24,667
Amounts due to other holders of consolidated structured entities at fair value	6,885,486	8,100,791
Salaries, bonuses and allowances payable	2,703,648	2,340,803
Settlement deposits payable	372,652	95,908
Dividends payable (Note 15)	371,418	294,000
Futures settlement risk funds payable	92,583	81,629
Provision	54,197	50,570
Securities investor protection fund payable	34,346	24,143
Funds payable to securities holders	6,047	6,090
Others (2)	4,258,641	2,775,741
	<u>52,599,717</u>	<u>20,997,043</u>
Total	52,599,717	20,997,043

- (1) Bonds in issue with maturity within one year as at 31 December 2019 and 31 December 2018 were as follows:

		31 December 2019	31 December 2018
15 Xintou 01	(i)	1,828,260	-
CSCIFN15B2009	(ii)	1,404,677	-
16 Xintou G1	(iii)	-	3,056,832
16 Xintou G2	(iv)	-	1,516,000
17 CSC G1	(v)	4,124,345	-
17 CSC G2	(vi)	3,090,134	-
17 CSC F1	(vii)	5,104,367	-
17 CSC F2	(viii)	3,024,929	-
18 CSC F1	(ix)	4,172,538	-
“Zhi Yingbao”-070	(x)	-	1,554,066
“Zhi Yingbao”-078	(xi)	-	500,678
“Zhi Yingbao”-079	(xii)	-	503,970
Gushouxin series	(xiii)	2,299	71,155
		<u>22,751,549</u>	<u>7,202,701</u>
Total		22,751,549	7,202,701

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42 OTHER CURRENT LIABILITIES (CONTINUED)

- (1) Bonds in issue with maturity within one year as at 31 December 2019 and 31 December 2018 were as follows (continued):
- (i) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed.
 - (ii) In September 2015, the Company's subsidiary CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by another subsidiary of the Company China Securities (International) Finance Holding Co., Ltd.
 - (iii) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed. The bond was fully redeemed in May 2019.
 - (iv) In August 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1.5 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 2.90% per annum and is not guaranteed. The bond was fully redeemed in August 2019.
 - (v) In April 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 4.48% per annum and is not guaranteed.
 - (vi) In May 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 4.88% per annum and is not guaranteed.
 - (vii) In July 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 4.74% per annum and is not guaranteed.
 - (viii) In October 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 5.07% per annum and is not guaranteed.
 - (ix) In March 2018, the Company privately issued a 2-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.43% per annum and is not guaranteed.
 - (x) In March 2017, the Company issued a 2-year fixed rate structured note, with a face value of RMB1.5 billion. The structured note pays interest annually at 4.60% per annum and is not guaranteed. The structured note was fully redeemed in March 2019.
 - (xi) In October 2018, the Company issued a 396-days fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays interest quarterly at 4.50% per year and is not guaranteed. The structured note was fully redeemed in November 2019.

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42 OTHER CURRENT LIABILITIES (CONTINUED)

- (xii) In October 2018, the Company issued a 397-days fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays interest quarterly at 4.20% per year and is not guaranteed. The structured note was fully redeemed in November 2019.

- (xiii) As at 31 December 2019, the Company had structured notes named “Gushouxin series” amounted to RMB2.35 million, which accrue interests at a fixed annual rate in the range of 3.10%~3.70%, of which the remaining tenure less than one year amounted to RMB2.30 million. As at 31 December 2018, the Company had two types of structured notes named “Gushouxin series” amounted to RMB71.16 million. One type accrues interests at a fixed annual rate in the range of 3.70%~5.00%, while the other type accrues interests at floating rate linked to one or more stock indices. The principal and interest of these structured notes are payable at maturity and are not guaranteed.

- (2) As at 31 December 2019, others mainly included initial trading deposits of total return swaps amounted to RMB2,343.03 million (31 December 2018: RMB1,275.69 million).

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43 BONDS IN ISSUE

	31 December 2019	31 December 2018
Subordinated bonds in issue	19,942,512	5,023,481
Corporate bonds in issue	10,135,228	32,626,527
Financial bonds in issue	4,055,229	-
Structured notes in issue	52	-
Total	34,133,021	37,650,008

(1) As at 31 December 2019 and 31 December 2018, there were no defaults related to any bonds in issue.

(2) The details of bonds in issue

		31 December 2019	31 December 2018
Corporate bonds			
15 Xintou 01	42(1) (i)	-	1,826,094
CSCIFN15B2009	42(1) (ii)	-	1,377,817
17 Xintou G1	42(1) (v)	-	4,087,902
17 Xintou G2	42(1) (vi)	-	3,086,006
17 Xintou F1	42(1) (vii)	-	5,034,840
17 Xintou F2	42(1) (viii)	-	2,949,329
18 Xintou F1	42(1) (ix)	-	4,143,789
18 Xintou F2	(i)	4,097,300	4,092,222
18 Xintou F3	(ii)	3,511,197	3,505,710
18 Xintou F4	(iii)	2,526,731	2,522,818
Subtotal		10,135,228	32,626,527
Subordinated bonds			
18 Xintou C1	(iv)	5,026,758	5,023,481
19 CSC C1	(v)	5,690,575	-
19 CSC C2	(vi)	5,133,607	-
19 CSC C3	(vii)	4,091,572	-
Subtotal		19,942,512	5,023,481
Financial Bonds			
19 CSC Financial Bond 01	(viii)	4,055,229	-
Structured notes			
Gushouxin series	42(1) (xiii)	52	-
Carrying amount		34,133,021	37,650,008

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43 BONDS IN ISSUE (CONTINUED)

- (2) The details of bonds in issue (Continued)
- (i) In April 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.12% per annum and is not guaranteed.
- (ii) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.
- (iii) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.
- (iv) In November 2018, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.38% per annum and is not guaranteed.
- (v) In January 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.
- (vi) In April 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (vii) In May 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB4 billion. The bond pays interest annually at 4.12% per annum and is not guaranteed.
- (viii) In August 2019, the Company publicly issued a 3-year fixed rate financial bond with a face value of RMB4 billion. The bond pays interest annually at 3.52% per annum and is not guaranteed.

44 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2019	31 December 2018
Issued and fully paid ordinary shares of RMB1 each (in thousands)		
- A shares	6,385,361	6,385,361
- H shares	1,261,024	1,261,024
	<u>7,646,385</u>	<u>7,646,385</u>
Total	<u>7,646,385</u>	<u>7,646,385</u>

The Company completed its initial public offering of A shares on the Shanghai Stock Exchange on 20 June 2018 whereby the Company issued 400,000,000 A shares with a face value of RMB1 per share for a total consideration of RMB2,068,697,180.29, resulting in a capital reserve of RMB1,668,697,180.29.

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45 OTHER EQUITY INSTRUMENTS

In January 2015, the Company issued first tranche of perpetual subordinated bonds amounted to RMB2 billion. In March 2015, the second tranche amounted to RMB3 billion was issued. In August 2019, the Company issued another tranche of perpetual subordinated bonds amounted to RMB5 billion.

Key terms and conditions relating to the above equity instruments are as follows:

- The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;
- The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;
- The Company has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary equity holders and reductions of registered capital;
- The priority over repayment of the 2015 perpetual subordinated bonds is subordinated to the Company's general debts but senior to the Company's ordinary equity shares, unless in the event of winding up, closure or liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals. The priority over repayment of the 2019 perpetual subordinated bond is subordinated to the Company's general debts and other subordinated, unless in the event of liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position. As at 31 December 2019, the interest accrued but not yet paid by the Company was RMB371 million. As at 31 December 2018, the interest accrued but not yet paid by the Company was RMB294 million, which was paid in the first half of 2019.

46 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

(2) Surplus reserves

(i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

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46 RESERVES (CONTINUED)

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalization is not less than 25% of the registered capital immediately before capitalization.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards for Business Enterprises, to its discretionary surplus reserve upon approval by the ordinary equity holders in Annual General Meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

(3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital.

In addition, the Group as the mutual fund manager shall appropriate general risk reserve at a proportion of no less than 10% of management fee income. The appropriation could be suspended on condition that the ending balance of risk reserve reached 1% of the aggregate of net asset values of the mutual funds, which are under management, at the end of last quarter.

The Group as the mutual fund custodian shall appropriate general risk reserve at a proportion of no less than 2.5% of custodian fee income. The appropriation could be suspended on condition that the ending balance of risk reserve reached 0.25% of the aggregate of net asset values of the mutual funds, which are under custody, at the end of last quarter.

Regulatory reserves represent reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income.

(5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(6) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under China Accounting Standards for Business Enterprises and IFRSs, whichever is lower.

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47 CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash and bank balances	47,221,055	17,055,809
Less: Restricted deposits (Note 32)	(278,373)	(206,776)
Interest receivable	(7,114)	(7,220)
	<u>46,935,568</u>	<u>16,841,813</u>

48 INTERESTS IN STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them.

(1) Structured entities included in consolidated financial statements

Considering that the Company acts as either the investment manager for the structured entities, or as principal in investing in the subordinated tranches or all of the shares issued by the structured entities, bearing most or all the risk of the products and obtaining most or all of the variable returns, the Group therefore consolidated these structured entities in its consolidated financial statements.

As at 31 December 2019 and 31 December 2018, total assets of consolidated structured entities, the Group's investments and maximum exposure arising from its investments in consolidated structured entities are as follows:

	31 December 2019	31 December 2018
Total assets	9,051,141	11,855,904
Investments	2,959,775	3,524,174
Maximum exposure	<u>3,014,723</u>	<u>3,559,564</u>

(2) Interests in unconsolidated structured entities**(i) Structured entities sponsored by the Group**

Unconsolidated structured entities sponsored by the Group primarily include asset management plans and investment funds sponsored by the Group. As the manager of these structured entities, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each structured entity. The interests held by the Group in these unconsolidated structured entities primarily include investments held directly and/or management fees, commission and performance fee earned from managed structured entities. The Group concluded that it acted as an agent rather than a principal based on its assessment of the variable return derived from these structured entities. Therefore, these structured entities are not consolidated by the Group.

For the year ended 31 December 2019, the Group earned management fee, commission and performance fee amounted to RMB894.57 million (31 December 2018: RMB811.86 million) from unconsolidated structured entities sponsored by the Group, for which the Group held no interest in during and as at the end of the reporting year.

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48 INTERESTS IN STRUCTURED ENTITIES (CONTINUED)

(2) Interests in unconsolidated structured entities (Continued)

(i) Structured entities sponsored by the Group (Continued)

As at 31 December 2019 and 31 December 2018, the maximum exposure and the carrying amount of relevant balance sheet items of the Group arising from these unconsolidated structured entities, for which the Group held interests in as at the end of the reporting year, were set out as below:

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss		
- Carrying amount	2,405,675	1,790,751
- Maximum exposure	<u>2,430,393</u>	<u>1,818,061</u>

(ii) Structured entities sponsored by third party financial institutions

As at 31 December 2019 and 31 December 2018, the amount of maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities sponsored by third party financial institutions were equal, which set out as below:

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	<u>28,270,622</u>	<u>21,127,138</u>

49 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase transactions. The counterparties are allowed to re-pledge those securities sold under repurchase transactions in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return part of collateral or be required to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them. A financial liability is recognized for cash received.

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49 TRANSFERRED FINANCIAL ASSETS (CONTINUED)Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances be required to return part of collateral or require counterparties to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2019	31 December 2018
Carrying amount of transferred assets		
- Financial assets sold under repurchase agreements	1,155,843	100,262
- Securities lending	624,531	45,016
	<hr/>	<hr/>
Total	1,780,374	145,278
	<hr/>	<hr/>
Carrying amount of related liabilities		
- Financial assets sold under repurchase agreements	1,059,736	100,143
	<hr/>	<hr/>

50 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	31 December 2019	31 December 2018
Contracted, but not provided for	2,572	14,683
	<hr/>	<hr/>

The above-mentioned capital commitments are primarily in respect of the construction of properties and purchase of equipment by the Group.

(2) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 31 December 2019 and 31 December 2018, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

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51 RELATED PARTY DISCLOSURES

(1) Beijing State-owned Capital Operation and Management Center

As at 31 December 2019, Beijing State-Owned Capital Operation and Management Center owned 35.11% of the equity interest and voting rights of the Company (31 December 2018: 35.11%).

Beijing State-Owned Capital Operation and Management Center was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is a People-owned enterprise controlled by the PRC government.

The transactions between Beijing State-owned Capital Operation and Management Center and the Group are in the ordinary course of business under normal commercial terms and conditions. Corresponding transactions and balances with this institution were as follows:

	Year ended 31 December	
	2019	2018
Fee and commission income	14,667	8
Interest expense	(20)	(15)
	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	70,623	-
Financial assets at fair value through other comprehensive income	31,283	-
Accounts payable to brokerage clients	3	5,247

(2) Central Huijin and companies under Central Huijin

As at 31 December 2019, Central Huijin Investment Limited ("Central Huijin") owned 31.21% of the equity interest and voting rights of the Company (31 December 2018: 31.21%).

Central Huijin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the China State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the PRC government.

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51 RELATED PARTY DISCLOSURES (CONTINUED)

(2) Central Huijin and companies under Central Huijin (Continued)

The Group enters into transactions with Central Huijin and its related parties in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Year ended 31 December	
	2019	2018
Fee and commission income	106,132	108,349
Interest income	242,334	215,264
Fee and commission expenses	(73,930)	(38,968)
Interest expense	(104,668)	(126,387)
	31 December 2019	31 December 2018
Assets		
Financial assets at fair value through other comprehensive income	277,987	484,786
Financial assets at fair value through profit or loss	1,089,795	858,624
Financial assets held under resale agreements	-	370,663
Derivative financial assets	60,067	81,332
Cash held on behalf of client	7,841,551	5,619,507
Cash and bank balances	1,681,302	1,591,835
Accounts receivable	35,405	19,159
Right of use assets	2,390	-
Liabilities		
Accounts payable to brokerage clients	4,907	1,630
Derivative financial liabilities	15,156	9,661
Financial assets sold under repurchase agreements	500,642	898,307
Short-term borrowings	89,598	-
Accounts payable	118,556	153,894
Lease liabilities	2,387	-

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51 RELATED PARTY DISCLOSURES (CONTINUED)

(3) Government related entities

According to the provisions of IAS 24 - Related Parties Disclosures, government entities controlled and jointly controlled by the PRC government and their subsidiaries (the "government related entities") are also regarded as related parties of the Group.

Part of the Group's transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities.

Directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

(4) Other major shareholders and its related parties

	Year ended 31 December	
	2019	2018
Fee and commission income	107,407	26,742
Interest income	62,760	48,315
Fee and commission expenses	(37,158)	(36,787)
Interest expense	(47,477)	(28,319)
	31 December 2019	31 December 2018
Assets		
Financial assets at fair value through other comprehensive income	260,516	544,144
Financial assets at fair value through profit or loss	117,375	57,743
Financial assets held under resale agreement	-	103,576
Derivative financial assets	6,229	2,618
Cash held on behalf of client	2,925,033	1,195,192
Cash and bank balance	623,182	780,482
Accounts receivable	10,527	11,610
Liabilities		
Accounts payable to brokerage clients	33,766	148,181
Derivative financial liabilities	16,774	7,427
Financial assets sold under repurchase agreements	579,585	-
Short-term borrowings	-	877,525
Accounts payable	26,507	2,009

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51 RELATED PARTY DISCLOSURES (CONTINUED)

(5) The Group's associates

The Group entered into transactions with its associates at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associates are not significant.

(6) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

The Group's remuneration paid for key management personnel are disclosed as follow:

	Year ended 31 December	
	2019	2018
Salaries, bonuses and allowances	134,968	87,113
Staff benefits	1,296	1,986
Contributions to defined contribution schemes	1,641	1,701
Total	<u>137,905</u>	<u>90,800</u>

52 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: where the inputs are observable for the assets and liabilities, either directly or indirectly, other than quoted prices in Level 1.

Level 3: where the inputs are unobservable inputs for relevant assets or liabilities.

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include, among others, underlying securities prices, interest rates, foreign exchange rates, volatilities, which are all observable and available from an active market.

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted asset management plans, certain over-the-counter derivative contracts and trust plans, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used primarily include discount cash flow model, option pricing model and comparable companies methods, etc. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable parameters that may have impacts on the valuation include, among others, weighted average cost of capital, liquidity discount, price to book ratio and volatility of underlying assets. As at 31 December 2019 and 31 December 2018, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

(1) Financial instruments recorded at fair value

	31 December 2019			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
- Debt instruments	5,559,555	45,155,332	8,828	50,723,715
- Equity investments	8,500,768	157,020	2,518,867	11,176,655
- Fund investments	5,439,702	2,642,149	-	8,081,851
- Others	-	20,088,269	1,685,443	21,773,712
Subtotal	<u>19,500,025</u>	<u>68,042,770</u>	<u>4,213,138</u>	<u>91,755,933</u>
Derivative financial assets	<u>65,015</u>	<u>714,681</u>	<u>175,754</u>	<u>955,450</u>
Financial assets at fair value through other comprehensive income				
- Debt instruments	830,466	31,597,072	2,497	32,430,035
- Equity instruments	60,488	3,153,312	-	3,213,800
Subtotal	<u>890,954</u>	<u>34,750,384</u>	<u>2,497</u>	<u>35,643,835</u>
Total assets	<u>20,455,994</u>	<u>103,507,835</u>	<u>4,391,389</u>	<u>128,355,218</u>
Financial liabilities at fair value through profit or loss				
- Financial liabilities held for trading	-	518,161	-	518,161
- Financial liabilities designated as at fair value through profit or loss	-	-	608,183	608,183
Subtotal	<u>-</u>	<u>518,161</u>	<u>608,183</u>	<u>1,126,344</u>
Derivative financial liabilities	<u>66,622</u>	<u>308,662</u>	<u>386,288</u>	<u>761,572</u>
Total liabilities	<u>66,622</u>	<u>826,823</u>	<u>994,471</u>	<u>1,887,916</u>

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

(1) Financial instruments recorded at fair value (Continued)

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
- Debt instruments	6,176,097	24,523,712	100,260	30,800,069
- Equity investments	2,254,471	314,217	1,767,688	4,336,376
- Fund investments	2,981,307	2,034,972	-	5,016,279
- Others	-	15,193,498	1,979,848	17,173,346
Subtotal	<u>11,411,875</u>	<u>42,066,399</u>	<u>3,847,796</u>	<u>57,326,070</u>
Derivative financial assets	<u>4,454</u>	<u>373,976</u>	<u>861,154</u>	<u>1,239,584</u>
Financial assets at fair value through other comprehensive income				
- Debt instruments	290,849	27,620,468	-	27,911,317
- Equity instruments	54,263	3,003,549	-	3,057,812
Subtotal	<u>345,112</u>	<u>30,624,017</u>	<u>-</u>	<u>30,969,129</u>
Total assets	<u>11,761,441</u>	<u>73,064,392</u>	<u>4,708,950</u>	<u>89,534,783</u>
Financial liabilities at fair value through profit or loss	-	1,252,581	-	1,252,581
Derivative financial liabilities	<u>7,504</u>	<u>126,258</u>	<u>43,699</u>	<u>177,461</u>
Total liabilities	<u>7,504</u>	<u>1,378,839</u>	<u>43,699</u>	<u>1,430,042</u>

CSC Financial Co., Ltd.

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

(2) Movements in Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value in each year are as follow:

	Year ended 31 December 2019					
	Financial assets at fair value through profit or loss	Financial assets at fair value through comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	Financial liabilities at fair value through profit or loss
1 January 2019	3,847,796	-	861,154	-	-	43,699
Total gains/(losses) for the year	220,853	-	(386,514)	4,041	-	219,286
Total gains recorded in other comprehensive income	-	(12,285)	-	-	-	-
Increases	1,916,099	-	367,493	604,142	-	902,124
Decreases	(1,878,024)	-	(666,379)	-	-	(778,821)
Transfers to Level 3 from Level 1	8,682	11,079	-	-	-	-
Transfers to Level 3 from Level 2	97,732	3,703	-	-	-	-
31 December 2019	4,213,138	2,497	175,754	608,183	-	386,288
Gains/(Losses) for the year included in profit or loss for assets/liabilities held at the end of the year	220,853	-	(386,514)	(4,041)	-	(219,286)

CSC Financial Co., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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52 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

(2) Movements in Level 3 financial instruments measured at fair value (continued)

Movements in Level 3 financial instruments measured at fair value in each year are as follow (continued):

	Year ended 31 December 2018		
	Financial assets at fair value through profit or loss	Derivative financial assets	Financial liabilities at fair value through profit or loss
1 January 2018	1,499,428	18,529	11,640
Total gains or losses for the year	125,629	997,805	19,835
Increases	2,842,252	24,820	-
Decreases	(564,824)	(180,000)	(31,475)
Transfers to Level 3 from Level 2	5,941	-	-
Transfers to Level 1 from Level 3	(60,630)	-	-
31 December 2018	3,847,796	861,154	43,699
Gains for the year included in profit or loss for assets/liabilities held at the end of the year	125,629	997,805	(19,835)
			408,034

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52 FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

- (3) Important unobservable input value in fair value measurement of Level 3

The fair value of financial instruments under Level 3 are primarily determined by discount cash flow model, option pricing model and comparable companies methods, etc. Determinations, etc to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs which mainly include weighted average cost of capital, liquidity discount, price to book ratio, volatility of underlying assets and others to the overall fair value measurement.

- (4) Transfers between Level 1 and Level 2

During the year ended 31 December 2019, the amount of financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income transferred from Level 1 to Level 2 were RMB40.86 million and RMB9.95 million, respectively (2018: RMB66.26 million and RMB10.11 million).

- (5) Financial assets and financial liabilities not measured at fair value

The information below summarizes the carrying amounts and fair values of those financial assets and liabilities not measured at fair value in the consolidated statement of financial position. As at 31 December 2019 and 31 December 2018, financial assets and financial liabilities for which the carrying amounts approximate fair value, included financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, lease liabilities, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable.

As at 31 December 2019 and 31 December 2018, the carrying amounts and fair value of bonds in issue (including bonds in issue with maturity within one year) are summarized below:

	31 December 2019	31 December 2018
Bonds in issue (including bonds in issue with maturity within one year)		
- Carrying amount (Notes 42 and 43)	56,884,570	44,852,709
- Fair value	<u>57,441,093</u>	<u>45,263,891</u>

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk and liquidity risk and operational risk.

Structure of risk management

The Board

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

The Board of Directors is the Company's highest decision-making body in risk management, which makes decisions with respect to the Company's overall risk management strategies and policies, internal control arrangements, and actions to address material risks faced by the Company, among other things.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the associated risks are adequately managed so that risk management activities can be effectively carried out through the Company's business and operating activities. The Board Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

The Operation Management

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

The Company Risk Management Committee of the Executives Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports; and formulating risk control strategies and plans for material business matters.

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

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Structure of risk management (Continued)

The Department, Branch and Subsidiary

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

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

In addition, pursuant to the needs of risk management in investment banking business, along with regulatory requirements, the Company has established the internal review department. Through such review at the firm level, the Company conducts final risk control prior to the delivery of investment banking projects, and assumes the decision making responsibility of the ultimate approval of materials and documents to be submitted, reported, issued or disclosed in the name of the Company.

Risk management activities

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

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

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

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk management activities (Continued)

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

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

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

Risk analysis and control

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built integrated control system and information technology systems to continuously monitor these risks.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk

Credit risks refer to the risks of an economic loss caused by the failure of customers, counterparties or issuers of debt financing instruments (also referred to as financiers) to perform their contractual obligations..

Credit risks of the Company relating to the securities financing business, which includes margin financing and stock pledge repurchase agreement, are primarily attributed to a decline in value, or insufficient liquidity of collateral provided by customers; customers' failure to repay debts in full in a timely manner due to legal disputes over collateral assets; and operational misconducts including fraudulent credit information, violation of contracts and regulatory requirements. Control over credit risks for the securities financing business is managed primarily through risk management education programmes for customers, credit due diligence and verification of customers, risk assessment on collateralized (pledged) securities, setup of trading limits, daily mark to market of exposure, issuing risk notification to customers, margin calls, forced position liquidation and legal recourse. The Company performs an assessment of the need for any allowance for impairment in accordance with the ECL model of the accounting standards of IFRS 9, and actively carry out debt recovery activities for defaulting customers

Credit risk relating to bond investments are primarily due to the decline in the creditworthiness of credit issuer of the debt financing instruments or defaults, counterparty defaults. The Company carry out due diligence for issuers and counterparties, establishes internal ratings for issuers, debts and counterparties. And manages the access and size of transactions according to the internal and external rating, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower. In 2019, due to the increasing number of default cases in the bond market, the Company further tightened the quality of its investment portfolio, post-investment tracking mechanism and credit risk management measures.

The Company controls credit risks relating to over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits on the size of transactions and related credit risk exposures before transactions can take place. The Company monitors and controls credit risk exposure of counterparties within established limits by adopting mark-to-market practices of derivative transactions and related collateral as well as forced position liquidating procedures.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. The Company strictly implements relevant trading and settlement rules to prevent inappropriate customer financing. In addition, for repurchase agreement transaction, through due diligence, establishment of reasonable customer limits and haircut on collateral bonds, setting standards for minimum collateral level of qualified securities and leverage ratios, concentration limits for single securities used as collateral and other measures, the Company prevents customer under-collateralisation. For option transactions, the Company through measures including margin deposit management, limits setting and forced liquidation control to manage customers' credit risk.

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

Expected credit loss measurement

The measurement of the ECL allowance for debt instruments, including investments in financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about the future economic conditions and credit behavior of the clients (such as the likelihood of customers defaulting and the resulting losses).

The Group has applied a 'three-stage' impairment model for ECL measurement based on changes in credit quality since the initial recognition of financial assets as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified as "Stage 1" and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL; Stage 2 and Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. The Group has measured the loss allowance for these financial instruments at an amount equal to the lifetime ECL.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

For securities financing business and debt securities investments classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). For credit-impaired financial assets classified under Stage 3, management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.

Based on the obligors’ credit quality, operation situation, contract maturity date, the volatility and liquidity of related collateral securities, and related performance information, the Company sets differentiated collateral to loan ratios as triggering margin calls and force liquidation thresholds (force liquidation thresholds generally no less than 130%) against different exposures related to these transactions.

- Securities financing business with collateral to loan ratios above the force liquidation thresholds and those past due for no more than 30 days are classified under Stage 1.
- Securities financing business with collateral to loan ratios fall below the pre-determined force liquidation thresholds but above 100%; or those past due for more than 30 days but no more than 90 days are classified under Stage 2.
- Securities financing business with collateral to loan ratios fall below 100%; or those past due for more than 90 days are classified under Stage 3.

The measurement of ECL adopted by the management according to IFRS 9, involves judgements, assumptions and estimations.

- Choosing appropriate models and assumptions for the measurement of ECL;
- Determining criteria for significant increase in credit risk (“SICR”), and definitions of defaults or credit impairment;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Measuring ECL – inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECL are the discounted product of the PD after considering the forward-looking impact, EAD, and LGD.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Measuring ECL – inputs, assumptions and estimation techniques (Continued)

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For securities financing business, the Company determines the PD by borrower based on factors including the coverage ratio of margin loan to underlying collateral value and the volatility of such collateral's valuation. For debt securities investments, external credit rating and related PD are taken into consideration.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. For securities financing business, the Company determines LGD, based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and type of securities.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

The criteria of Significant increase in credit risk

The Company evaluates financial instruments to identify whether a SICR has occurred since initial recognition at each financial statement date. An ECL allowance of financial assets is recognized according to the stage in which the assets are classified. This took account of what reasonable information, including forward looking information, is available to identify whether a SICR had arisen. The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considered securities financing business to have experienced a SICR if collateral to loan ratios are lower than the force liquidation thresholds, which means collateral valuation is decline or the quality of the third-party collateral is significantly reduced. As at 31 December 2019, over 90% of the securities financing balances of the Company were covered by collateral value of over the force liquidation thresholds of related loan or repo amounts and there was no SICR.

For debt securities investments, the Company makes use of open market credit ratings. The Company considers debt securities investments to have experienced a SICR if the latest external ratings of the issuers of debt securities or the debt securities themselves underwent two notches of downward migration or more, compared with those ratings as at the acquisition date; and if the latest external rating (China Lianhe Credit Rating Co.,Ltd.) of issuers of debt securities or the debt securities themselves were under the predetermined grading of A-. As 31 December 2019, all the debt securities investments of the Company have been rated as investment grade or above and there was no SICR.

A backstop is applied to all relevant financial assets and they are considered to have experienced a SICR if the borrower, the counterparty, the issuer or the debtor is more than 30 days past due on its contractual payments.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

The criteria of Significant increase in credit risk (Continued)

The Company has used the low credit risk exemption for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits, financial assets held under resale agreements collateralized by debt securities.

Definition of credit-impaired assets

The Company assesses whether a financial instrument is credit-impaired in accordance with IFRS 9, in a manner consistent with its internal credit risk policies for managing financial instruments. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of “in default”, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For securities financing business, forced liquidation of a client’s position is triggered based on a predetermined threshold of loan to collateral ratios; whereby the collateral valuation falls short of the related loan or repo amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor, issuer, borrower or counterparty is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the Company relating to the debtor, issuer, borrower or counterparty’s financial difficulty;
- It is becoming probable that the debtor, issuer, borrower, or counterparty will enter bankruptcy or undertake a financial restructuring.

When a financial asset is considered to be credit-impaired, it may be the result of multiple events, not due to a separately identifiable event.

Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical data analysis and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. Key economic variables mainly include the growth rate of Domestic Gross Domestic Product (GDP), Producer Price Index (PPI) and the Interest Rate of Renminbi Loans. The impact of these economic variables on the PD, EAD and LGD has been determined by performing historical statistical regression analysis to forecast the expected changes in these variables on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Company’s Expert team also provided other possible scenarios along with scenario weightings. The number of other scenarios used is set based on an analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each financial statement date.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Forward-looking information (Continued)

At 31 December 2019 and 31 December 2018, for all portfolios the Company concluded that three scenarios appropriately captured non-linearities of key economic variables. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The assessment of SICR is performed using the Lifetime PD under each of the base, and other scenarios, multiplied by the associated scenario weighting. The Group measures ECL as either a probability weighted 12 month ECL or a probability weighted lifetime ECL. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes as at the financial statement date.

Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, weighting applied to economic scenarios and other factors considered when applying expert judgement. Changes in these inputs, assumptions and judgements are likely to have an impact on the assessment of SICR and the measurement of ECLs.

As mentioned above, the Company adopts three scenarios for all portfolios, being the optimistic scenario, base scenario and pessimistic scenario. A sensitivity analysis was applied to these scenarios as at 31 December 2019 and the results were as follows:

- (i) The incremental impact on the ECL allowance of applying the probability weighted scenarios was no more than a 5% deviation from the base ECL scenario.
- (ii) The decremental impact on the ECL allowance of increasing the weighting applied to the optimistic scenario by 10% and a corresponding reduction of 10% weighting applied to the base scenario was no more than 5% of the ECL allowance.
- (iii) The incremental impact of shifting 10% of the weighting from the base case scenario to the pessimistic scenario was no more than 5% of the ECL allowance.

Meanwhile, the Company also uses sensitivity analysis to monitor the impact of changes to the credit risk classification of financial assets on ECL. As at 31 December 2019, assuming there was no SICR since initial recognition, and all the financial assets in Stage 2 were moved to Stage 1, the decremental impact on ECL recognized in financial statements would be less than 5% of the ECL allowance.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)**Risk analysis and control (Continued)****53.1 Credit risk (Continued)****Collateral and other credit enhancements**

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral for funds advanced or guarantee. The Company determined the type and amount of collateral according to the credit risk evaluation of counterparties. The collateral under margin financing and reverse repurchase agreements is primarily stocks, debt securities, funds etc. The management would test the market value of collateral periodically, and send margin calls according to related agreements, also monitor the market value fluctuation of collaterals when reviewing the measurement of the loss allowance.

Loss ratio

Loss ratio applied by the Company on its Margin accounts and stock-pledged repurchase business under the Stage 1, Stage 2 and Stage 3 were 0.23%, 1.35% and 50.08%, respectively.

Credit risk exposure analysis

As at 31 December 2019 and 31 December 2018, the credit quality of the Group's financing exposures to customers was in good condition and over 90% of the margin accounts and financial assets held under resale agreements of the Group were with collateral to loan ratios of over 130%. High threshold of margin loans to collateral ratios indicated that PD was low. For debt securities investments, the Group employed open market credit ratings. Majority of the Group's debt securities investments were rated as investment grade (AA) or above according to China Lianhe Credit Rating Co.,Ltd.

The Group's maximum exposure to credit risk without taking into account of any collateral and other credit enhancements:

	31 December 2019	31 December 2018
Financial assets at fair value through other comprehensive income	32,430,035	27,911,317
Financial assets at amortized costs	-	187,063
Financial assets held under resale agreements	21,118,756	23,797,237
Refundable deposits	2,793,611	1,880,554
Margin accounts	27,806,140	25,148,083
Financial assets at fair value through profit or loss	79,179,041	52,754,080
Derivative financial assets	955,450	1,239,584
Cash held on behalf of clients	52,695,657	33,698,335
Deposits in banks	47,221,032	17,055,771
Others	2,399,811	1,737,544
	<hr/>	<hr/>
Total maximum credit risk exposure	266,599,533	185,409,568

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)**Risk analysis and control (Continued)****53.1 Credit risk (Continued)**

	31 December 2019			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
Financial assets held under resale agreements				
Carrying amount	19,835,841	374,703	1,005,091	21,215,635
Loss allowance	(27,466)	(5,075)	(64,338)	(96,879)
Book value	<u>19,808,375</u>	<u>369,628</u>	<u>940,753</u>	<u>21,118,756</u>
Including: stock-pledged repurchase business				
Carrying amount	13,649,571	374,703	1,005,091	15,029,365
Loss allowance	(26,862)	(5,075)	(64,338)	(96,275)
Collateral	<u>47,569,964</u>	<u>992,840</u>	<u>1,594,753</u>	<u>50,157,557</u>
Margin accounts				
Carrying amount	27,766,695	8	1,187,786	28,954,489
Loss allowance	(67,013)	(1)	(1,081,335)	(1,148,349)
Book value	<u>27,699,682</u>	<u>7</u>	<u>106,451</u>	<u>27,806,140</u>
Financial assets at fair value through other comprehensive income				
Book value	<u>32,422,774</u>	<u>4,764</u>	<u>2,497</u>	<u>32,430,035</u>
Loss allowance	<u>(10,514)</u>	<u>(1,558)</u>	<u>(15,366)</u>	<u>(27,438)</u>

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)**Risk analysis and control (Continued)****53.1 Credit risk (Continued)**

	31 December 2018			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
Financial assets held under resale agreements				
Carrying amount	22,610,412	1,198,686	107,735	23,916,833
Loss allowance	(48,389)	(51,546)	(19,661)	(119,596)
Book value	<u>22,562,023</u>	<u>1,147,140</u>	<u>88,074</u>	<u>23,797,237</u>
Including: stock-pledged repurchase business				
Carrying amount	12,629,404	1,198,686	107,735	13,935,825
Loss allowance	(47,875)	(51,546)	(19,661)	(119,082)
Collateral	<u>28,745,076</u>	<u>1,564,314</u>	<u>88,074</u>	<u>30,397,464</u>
Margin accounts				
Carrying amount	24,266,356	203,243	1,877,608	26,347,207
Loss allowance	(88,946)	(5,485)	(1,104,693)	(1,199,124)
Book value	<u>24,177,410</u>	<u>197,758</u>	<u>772,915</u>	<u>25,148,083</u>
Financial assets at fair value through other comprehensive income				
Book value	<u>27,901,206</u>	<u>6,408</u>	<u>3,703</u>	<u>27,911,317</u>
Loss allowance	<u>(7,978)</u>	<u>(1,227)</u>	<u>(1,005)</u>	<u>(10,210)</u>
Financial assets at amortized cost				
Carrying amount	192,120	-	-	192,120
Loss allowance	(5,057)	-	-	(5,057)
Book value	<u>187,063</u>	<u>-</u>	<u>-</u>	<u>187,063</u>

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

The movements of loss allowance is mainly affected by:

- Increases are primarily attributable to new financial instruments recognized, changes in PD and LGD affected by market changes and the resulted movements amongst Stage 1, Stage 2 and Stage 3;
- Reverses includes the reversal caused by the redemption or disposal of financial assets, the impact of changes in model parameters and assumption;
- Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired, and the corresponding measurement basis changes between the 12-month (12M) or the Lifetime basis; and
- Foreign exchange and other movements includes changes in foreign exchange translations for assets denominated in foreign currencies and other movements.

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognized as follows according to the stage of ECL:

- (i) Credit loss allowance for financial assets held under resale agreements

	Stage of ECL		Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	
1 January 2019	48,389	51,546	119,596
Increases	15,964	3,818	53,938
Reverses	(32,892)	(23,498)	(76,667)
Write - offs	-	-	-
Transfer:			
Stage 1 to stage 2	(1,414)	1,414	-
Stage 1 to stage 3	(4,220)	-	4,220
Stage 2 to stage 3	-	(26,578)	26,578
Stage 2 to stage 1	1,627	(1,627)	-
Foreign exchange and other movements	12	-	12
31 December 2019	27,466	5,075	96,879
		Lifetime ECL (Credit-impaired)	
		19,661	119,596
		34,156	53,938
		(20,277)	(76,667)
		-	-
		-	-
		4,220	-
		26,578	-
		-	-
		-	-
		64,338	96,879

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

(i) Credit loss allowance for financial assets held under resale agreements (Continued)

	Stage 1	Stage of ECL		Total
	12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (Credit-impaired)	
1 January 2018	44,497	-	-	44,497
Increases	8,390	48,588	19,314	76,292
Reverses	(1,221)	-	-	(1,221)
Write - offs	-	-	-	-
Transfer:				
Stage 1 to stage 2	(2,958)	2,958	-	-
Stage 1 to stage 3	(347)	-	347	-
Foreign exchange and other movements	28	-	-	28
31 December 2018	48,389	51,546	19,661	119,596

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

(ii) Credit loss allowance for financial assets at fair value through other comprehensive income

	Stage of ECL			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (Credit-impaired)	
1 January 2019	7,978	1,227	1,005	10,210
Increases	9,169	1,160	14,358	24,687
Reversals	(6,602)	(831)	-	(7,433)
Write - Offs	-	-	-	-
Transfer:				
Stage 1 to stage 2	(2)	2	-	-
Stage 1 to stage 3	(3)	-	3	-
Foreign exchange and other movements	(26)	-	-	(26)
31 December 2019	10,514	1,558	15,366	27,438

	Stage of ECL			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (Credit-impaired)	
1 January 2018	4,138	253	-	4,391
Increases	5,848	1,221	749	7,818
Reversals	(1,999)	-	-	(1,999)
Write - Offs	-	-	-	-
Transfer:				
Stage 1 to stage 2	(6)	6	-	-
Stage 1 to stage 3	(3)	-	3	-
Stage 2 to stage 3	-	(253)	253	-
Foreign exchange and other movements	-	-	-	-
31 December 2018	7,978	1,227	1,005	10,210

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

(iii) Credit loss allowance for margin accounts

	Stage of ECL			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (Credit-impaired)	
1 January 2019	88,946	5,485	1,104,693	1,199,124
Increases	35,172	-	194,335	229,507
Reverses	(57,194)	(5,165)	(220,351)	(282,710)
Write - offs	-	-	-	-
Transfer:				
Stage 1 to stage 3	(238)	-	238	-
Stage 2 to stage 1	319	(319)	-	-
Stage 3 to stage 1	5	-	(5)	-
Foreign exchange and other movements	3	-	2,425	2,428
31 December 2019	67,013	1	1,081,335	1,148,349

	Stage of ECL			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (Credit-impaired)	
1 January 2018	116,742	-	4,255	120,997
Increases	-	4,686	1,091,628	1,096,314
Reversals	(20,543)	-	-	(20,543)
Write - offs	-	-	(120)	(120)
Transfer:				
Stage 1 to stage 2	(799)	799	-	-
Stage 1 to stage 3	(6,290)	-	6,290	-
Foreign exchange and other movements	(164)	-	2,640	2,476
31 December 2018	88,946	5,485	1,104,693	1,199,124

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

(iv) Credit loss allowance for financial assets at amortized cost

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	5,057	-	-	5,057
Increases	-	-	-	-
Reverses	(5,079)	-	-	(5,079)
Write - offs	-	-	-	-
Foreign exchange and other movements	22	-	-	22
31 December 2019	-	-	-	-
	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	12,283	-	-	12,283
Increases	-	-	-	-
Reversals	(7,552)	-	-	(7,552)
Write - offs	-	-	-	-
Foreign exchange and other movements	326	-	-	326
31 December 2018	5,057	-	-	5,057

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.2 Liquidity risk

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

The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralization management for securities investment and financing activities, and has adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

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

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2019					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	54,625,736	-	-	-	-	54,625,736
Derivative financial liabilities	759,681	1,450	313	128	-	761,572
Financial liabilities at fair value through profit or loss	-	842,773	283,754	-	-	1,126,527
Financial assets sold under repurchase agreements	-	52,701,156	2,944,771	-	-	55,645,927
Placements from banks and other financial institutions	-	9,265,754	-	-	-	9,265,754
Short-term borrowings	-	889,352	-	-	-	889,352
Short-term financing instruments payable	-	16,054,406	1,509,107	-	-	17,563,513
Bonds in issue	-	220,000	1,224,568	35,560,221	-	37,004,789
Lease liabilities	-	135,110	238,789	730,122	63,563	1,167,584
Others (i)	20,694,121	10,169,078	19,458,764	10,286	-	50,332,249
Total	76,079,538	90,279,079	25,660,066	36,300,757	63,563	228,383,003
Cash flows from derivative financial liabilities settled on a net basis	759,681	823	262	128	-	760,894
Gross-settled derivative financial liabilities	-	627	51	-	-	678
Contractual amounts receivable	-	-	-	-	-	-
Contractual amounts payable	-	627	51	-	-	678

(i) Others mainly include bonds in issue with maturity within one year and accounts payable to underwriting clients.

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53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows (Continued):

	31 December 2018					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	35,038,585	-	-	-	-	35,038,585
Derivative financial liabilities	166,604	9,376	1,481	-	-	177,461
Financial liabilities at fair value through profit or loss	-	1,253,416	-	-	-	1,253,416
Financial assets sold under repurchase agreements	-	31,897,256	661,438	-	-	32,558,694
Placements from banks and other financial institutions	-	2,051,567	2,047,522	-	-	4,099,089
Short-term borrowings	-	1,119,592	-	-	-	1,119,592
Short-term financing instruments payable	-	9,407,743	4,444,587	-	-	13,852,330
Bonds in issue	-	237,562	1,512,945	39,323,475	-	41,073,982
Others	4,575,065	8,245,415	5,896,613	4,188	533	18,721,814
Total	39,780,254	54,221,927	14,564,586	39,327,663	533	147,894,963
Cash flows from derivative financial liabilities settled on a net basis	166,604	9,355	957	-	-	176,916
Gross-settled derivative financial liabilities	-	21	524	-	-	545
Contractual amounts receivable	-	-	-	-	-	-
Contractual amounts payable	-	21	524	-	-	545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)**Risk analysis and control (Continued)****53.2 Liquidity risk (Continued)**

The table below analyzes the Group's lease agreements, which were committed as at 31 December 2019 but not commenced into the relevant maturity groupings based on their contractual maturities:

	31 December 2019				Total
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	
Lease liabilities	7,109	7,109	20,133	6,865	41,216

53.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits, sensitivity index limit and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines, the effectiveness of its risks and the income level after risk adjustments, and includes the assessment results in the performance evaluation of these business lines. The Company makes on-going efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

In 2019, the overall scale of the Company's proprietary business increased to achieve better investment income, with market risk effectively controlled within the scope of various risk limit indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence level.

VaR is calculated using the Company's historical data. Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions. As a supplementary measure, the Company implements daily and specific stress tests to assess the impact on extreme adverse movements in risk indicators to the net capital of the Company and the profit and loss on proprietary portfolio and proposes emergency plans with relevant recommendations and measures accordingly.

Consistent with its internal risk management policy and comparable with peers, the Group's VaR was computed at a confidence level of 95% and with a holding period of 1 trading day. The Group's VaR analysis by risk categories is summarized as follows:

	31 December 2019	31 December 2018
Equity price-sensitive financial instruments	166,277	22,039
Interest rate-sensitive financial instruments	116,813	61,703

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by China Securities Finance Corporation Limited and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the VaR calculation above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)**Risk analysis and control (Continued)****53.3 Market risk (Continued)****(2) Interest rate risk**

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

The Company primarily uses interest rate sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year-end on the Company's total revenue and total equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same and market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce its interest rate risk.

Interest rate sensitivity analysis are as follows:

Sensitivity to revenue	31 December 2019	31 December 2018
Change in basis points		
+25 basis points	(303,623)	(161,778)
- 25 basis points	305,685	163,183
	<hr/>	<hr/>
Sensitivity to equity	31 December 2019	31 December 2018
Change in basis points		
+25 basis points	(267,953)	(133,615)
- 25 basis points	273,987	135,193
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(3) Foreign currency rate risk

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. As at 31 December 2019, the foreign exchange exposure is approximately RMB1,621 million (31 December 2018: RMB1,721 million). The Group manages its foreign exchange rate risk by limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in Renminbi, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.

(4) Other price risks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Risk analysis and control (Continued)

53.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC and effective 1 October 2016, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Risk coverage ratio = net capital / sum of various risk capital provisions x 100%,

Capital leverage ratio = core net capital / total asset on-/ off-balance-sheet x 100%,

Liquidity coverage ratio = high quality liquid assets / net cash outflow in 30 days x 100%,

Net stable funding ratio = available amount of stable funding / required amount of stable funding x 100%.

Core net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	31 December 2019	31 December 2018
Non-current assets			
Property, plant and equipment		490,054	439,704
Right-of-use assets		833,701	833,701
Investment properties		49,438	47,742
Intangible assets		209,077	161,781
Investment in subsidiary	20	5,333,123	4,093,123
Investment in associates		45,824	47,565
Financial assets at fair value through profit or loss		3,112,441	4,234,861
Financial assets at fair value through other comprehensive income		3,153,312	3,003,549
Financial assets held under resale agreements		2,507,276	3,256,324
Refundable deposits		960,075	629,612
Deferred tax assets		864,274	899,233
Other non-current assets		109,426	153,654
Total non-current assets		17,668,021	16,967,148
Current assets			
Margin accounts		27,752,838	24,347,080
Accounts receivable		1,977,201	947,910
Financial assets at fair value through profit or loss		75,551,994	41,539,033
Financial assets at fair value through other comprehensive income		31,436,517	27,606,444
Derivative financial assets		955,450	1,239,584
Financial assets held under resale agreements		18,392,326	19,436,964
Cash held on behalf of clients		47,853,696	29,876,323
Cash and bank balances		44,916,905	14,257,151
Other current assets		151,373	194,331
Total current assets		248,988,300	159,444,820
Total assets		266,656,321	176,411,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	Note	31 December 2019	31 December 2018
Current liabilities			
Accounts payable to brokerage clients		47,967,795	29,983,709
Lease liabilities		279,206	-
Derivative financial liabilities		763,495	177,307
Financial liabilities at fair value through profit or loss		1,126,344	1,252,581
Financial assets sold under repurchase agreements		54,928,626	31,413,929
Placements from banks and other financial institutions		9,263,545	4,048,839
Taxes payable		529,492	211,998
Short-term financing instruments payable		17,495,953	13,847,959
Other current liabilities		43,974,564	12,515,345
Total current liabilities		<u>176,329,020</u>	<u>93,451,667</u>
Net current assets		<u>72,659,280</u>	<u>65,993,153</u>
Total assets less current liabilities		<u>90,327,301</u>	<u>82,960,301</u>
Non-current liabilities			
Bonds in issue		34,256,291	36,579,245
Lease liabilities		525,976	-
Deferred tax liabilities		639,292	321,588
Other non-current liabilities		4,480	4,614
Total non-current liabilities		<u>35,426,039</u>	<u>36,905,447</u>
Net assets		<u>54,901,262</u>	<u>46,054,854</u>
Equity			
Share capital		7,646,385	7,646,385
Other equity instruments		9,980,698	5,000,000
Reserves		20,858,907	18,992,277
Retained earnings		16,415,272	14,416,192
Total equity		<u>54,901,262</u>	<u>46,054,854</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2019		7,646,385	5,000,000	8,690,960	2,876,986	7,419,395	4,936	14,416,192	46,054,854
Profit for the year		-	-	-	-	-	-	5,397,214	5,397,214
Other comprehensive income for the year		-	-	-	-	-	216,263	-	216,263
Total comprehensive income for the year		-	-	-	-	-	216,263	5,397,214	5,613,477
Capital injected by equity holders									
-Capital injected by other equity instrument holders	45	-	4,980,698	-	-	-	-	-	4,980,698
Appropriation to surplus reserves	46	-	-	-	539,721	-	-	(539,721)	-
Appropriation to general reserves	46	-	-	-	-	1,110,646	-	(1,110,646)	-
Dividends - 2018	15	-	-	-	-	-	-	(1,376,349)	(1,376,349)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	(371,418)	(371,418)
At 31 December 2019		7,646,385	9,980,698	8,690,960	3,416,707	8,530,041	221,199	16,415,272	54,901,262

The net profit of the Company for the year ended 31 December 2019 amounted to RMB5,397 million (2018: RMB2,951 million).

CSC Financial Co., Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (CONTINUED)

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
1 January 2018		7,246,385	5,000,000	7,022,263	2,581,926	6,825,340	(234,029)	14,025,053	42,466,938
Profit for the year		-	-	-	-	-	-	2,950,605	2,950,605
Other comprehensive income for the year		-	-	-	-	-	238,965	-	238,965
Total comprehensive income for the year		-	-	-	-	-	238,965	2,950,605	3,189,570
Capital injected by equity holders									
- issuance of A shares	44	400,000	-	1,668,697	-	-	-	-	2,068,697
Appropriation to surplus reserves	46	-	-	-	295,060	-	-	(295,060)	-
Appropriation to general reserves	46	-	-	-	-	594,055	-	(594,055)	-
Dividends - 2017	15	-	-	-	-	-	-	(1,376,351)	(1,376,351)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	(294,000)	(294,000)
At 31 December 2018		7,646,385	5,000,000	8,690,960	2,876,986	7,419,395	4,936	14,416,192	46,054,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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56 EVENTS AFTER THE REPORTING PERIOD

(1) Issuance of commercial papers

In January 2020, the Company publicly issued a 88-day commercial paper ("20 CSC CP001") with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.79%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

In January 2020, the Company publicly issued a 88-day commercial paper ("20 CSC CP002") with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.79%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

In February 2020, the Company publicly issued a 83-day commercial paper ("20 CSC CP003") with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.52%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

In March 2020, the Company publicly issued a 91-day commercial paper ("20 CSC CP004") with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.42%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

(2) Issuance of corporate bonds

In March 2020, the Company publicly issued corporate bonds with a face value of RMB6 billion, which include two tranches ("20 CSC G1" and "20 CSC G2"). The total issuance amount of the 3-year bond "20 CSC G1" is RMB5 billion, which pays interest annually at 2.94% per annum and is not guaranteed. The total issuance amount of the 5-year bond "20 CSC G2" is RMB1 billion, which pays interest annually at 3.13% per annum and is not guaranteed.

(3) Private placement of A-share ordinary shares

In March 2020, the Company has received the Approval Regarding the Private Placement of CSC Financial Co., Ltd. (Zheng Jian Approval No. [2020] 345) from CSRC, which approved the Company's private placement of ordinary A-shares of not exceeding 1,277,072,295 shares. Such approval shall remain valid for 12 months from the date of the approval of the issuance.

(4) Transfer of shares by a state-owned shareholder for nil consideration

In January 2020, the Company received a notice from the largest shareholder, Beijing State-owned Capital Operation and Management Center ("Beijing State Management Center") that it intends to transfer all of its holding of 2,684,309,017 shares, representing 35.11% of the total share capital of the Company to Beijing Financial Holdings Group Co., Ltd. ("Beijing Financial Holdings Group") for nil consideration ("Transfer"). As at 19 March 2020, the Company received a notice from Beijing State Management Center that the transfer has been approved by State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

(In RMB thousands, unless otherwise stated)

56 EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(4) Transfer of shares by a state-owned shareholder at nil consideration (continued)

After the completion of the Transfer, Beijing State Management Center will no longer hold any shares in the Company and Beijing Financial Holdings Group will directly hold 2,684,309,017 shares, representing 35.11% of the total share capital of the Company, making it the largest shareholder of the Company. The Transfer has no impacts on the Company's non-controlling shareholders and the status that the Company has no actual controlling person.

The Transfer is subject to the approval of relevant regulators and authorities. The Company will timely disclose information on further progress of the Transfer.

(5) Dividend

On 26 March 2020, the Board of directors proposes a cash dividend of RMB2.35 (tax inclusive) per 10 ordinary shares, amounting to RMB1,797 million (tax inclusive) in total based on 7,646,385,238 shares for the year ended 31 December 2019. The dividend distribution represents 35.03% of profit for the year 2019 attributable to ordinary equity holders of the Company in the consolidated financial statements. The remaining undistributed profit will be carried forward to the following years. Such proposal is subject to the approval by the ordinary equity holders in the Annual General Meeting.

(6) Impact assessment on epidemic situation of COVID-19

Since the outbreak of COVID-19 in January 2020, the Group has, in full compliance with the "Circular regarding Further Strengthening the Support of the Financial Sector to the Control and Prevention of the Novel Coronavirus Outbreak" jointly issued by the People's Bank of China, Ministry of Finance, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange. The Group determinedly implements the measures on disease control and prevention and resumption of normal work and operations in accordance with the policy centrally managed by the Central Party Committee, the State Council, and the Beijing Municipal Government. On the basis of carrying out sound disease control and prevention measures, the Group strives to take effective policies and procedures to ensure smooth provision of securities services, protection of the rights and interests of the investors; and orderly execution of business operations and client services.

COVID-19 will affect the global economy outlook and the operations of enterprises, and may have a further impact on the capital market and securities market, as well as the Group's quality or levels of return of financial asset in the short term. The Group will continue to pay close attention to the development of the situation as well as the various control policies, evaluate and actively respond to its impacts on the financial position and operating results of the Group.

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