THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your securities in China International Capital Corporation Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



**This circular is for information purposes only and is being provided to you solely for the purposes of considering the resolutions to be voted upon at the Shareholders' meetings of China International Capital Corporation Limited to be held on 29 December 2016. This circular does not constitute an offer to issue or sell, or the solicitation of an offer to acquire, purchase or subscribe for securities referred to in this circular in the United States (including its territories and possessions, any State of the United States, and the District of Columbia) or elsewhere.** The securities referred to herein may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). There is no intention to register any securities referred to in this circular in the United States, or to conduct a public offering of such securities in the United States.

CICC
中金公司

# China International Capital Corporation Limited
# 中國國際金融股份有限公司

*(A joint stock limited company incorporated in the People's Republic of China)*

**(Stock Code: 3908)**

# (1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN CISC AND THE PROPOSED ISSUE OF THE CONSIDERATION SHARES
# (2) APPLICATION FOR THE WHITEWASH WAIVER
# (3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
# AND
# (4) PROPOSED INCREASE OF THE ISSUE SIZE OF THE DEBT FINANCING INSTRUMENTS

**Financial Advisers to the Company**

CICC
中金香港证券

農銀國際
ABC INTERNATIONAL

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders**

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 14 to 41 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 48 to 83 of this circular and a letter from the Independent Board Committee is set out on pages 46 to 47 of this circular.

The notices of the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting have been despatched to the Shareholders on 14 November 2016. The accompanying proxy forms are for the appointment of proxy to attend the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting (as applicable). Whether or not you would attend the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting (as applicable), please fill in the accompanying proxy form according to relevant instructions and return it as soon as possible, and not less than 24 hours before the fixed time of holding the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting in any event. The filled and returned proxy form will have no effects on your vote in person in the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting (as applicable) or any other postponed meetings. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM, the Domestic Shareholders' Class Meeting and the H Shareholders' Class Meeting (as applicable) should you so wish.

5 December 2016

# CONTENTS

The following expected timetable may be subject to change and further announcement(s) in relation to any revised timetable will be published as and when appropriate.

| | |
|---|---|
| EGM/Domestic Shareholders' Class Meeting/H Shareholders' Class Meeting | December 29, 2016 (Thursday) |
| Announcement of the results of the EGM/Domestic Shareholders' Class Meeting/H Shareholders' Class Meeting | December 29, 2016 (Thursday) |
| Completion and issue of the Consideration Shares | on or before June 30, 2017 (Friday) |
| Announcement of the Completion to be published | on or before June 30, 2017 (Friday) |

*In this circular, unless the context otherwise requires, the following terms and expression have the meaning set forth below*

| | |
|---|---|
| "ABCI" | ABCI Capital Limited (農銀國際融資有限公司), a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) and type 6 regulated activities (advising on corporate finance) under the SFO |
| "AGM" | the annual general meeting of the Company dated 8 June 2016 |
| "Alternative Investment Company" | China Investment Securities Investment Co., Ltd. (中投證券投資有限公司), a company incorporated in the PRC in March 2012 and a wholly-owned subsidiary of CISC |
| "Announcement" | the announcement in relation to, among others, the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver, which was published by the Company on 4 November 2016 |
| "Appraisal Value" | the value of total equity attributable to owners of CISC as at the Base Reference Date as appraised by the PRC Valuer |
| "Articles of Association" | the articles of association of the Company |
| "associate(s)" | has the meanings as ascribed thereto under the Listing Rules |
| "Base Reference Date" | 30 June 2016, being the reference date against which the total equity attributable to owners of CISC was appraised |
| "Board" or "Board of Directors" | the board of Directors of the Company |
| "Bohai Economic Rim" | the region comprising Beijing, Tianjin, Hebei province, Liaoning province and Shandong province in China |
| "China" or "PRC" | the People's Republic of China excluding, for the purpose of this circular, Hong Kong, Macau Special Administrative Region and Taiwan |
| "China Securities Finance" | China Securities Finance Corporation Limited (中國證券金融股份有限公司), a joint stock company established under the direction of the State Council to provide, among other functions, margin and securities financing services to support the margin financing and securities lending businesses of PRC securities firms |

| | |
|---|---|
| "CSDCC" | China Securities Depositary and Clearing Corporation Limited (中國證券登記結算有限公司), an enterprise incorporated in the PRC in 2001, with Shanghai Stock Exchange and Shenzhen Stock Exchange holding 50% and 50% of its equity interest, respectively |
| "CICCHKS" | China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), a company incorporated in Hong Kong in March 1998 and an indirectly wholly-owned subsidiary of the Company |
| "CIS HK" | China Investment Securities (Hong Kong) Financial Holdings Limited (中投證券(香港)金融控股有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of CISC |
| "CISC" | China Investment Securities Company Limited (中國中投證券有限責任公司), a company incorporated in the PRC in 2005 , which is wholly-owned by Huijin as at the Latest Practicable Date. Unless the context requires otherwise, including when discussing the businesses and financial information of CISC, references to "CISC" also include its subsidiaries |
| "CISC Group" | CISC and its subsidiaries |
| "CISC Luckystone" | China Investment Luckystone Investment Management Co., Ltd. (中投瑞石投資管理有限責任公司), a company incorporated in the PRC in August 2009 and a wholly-owned subsidiary of CISC |
| "close associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Closing Date" | a date on which the Consideration Shares are issued and registered with CSDCC |
| "Company", "the Company", or "CICC" | China International Capital Corporation Limited (中國國際金融股份有限公司), a joint stock limited company in the PRC converted from China International Capital Corporation Limited (中國國際金融有限公司), a Chinese-foreign equity joint venture, on 1 June 2015. Unless the context requires otherwise, including when discussing the businesses and financial information of the Company, references to "Company" "the Company", or "CICC" also include its subsidiaries |
| "Company Law" or "PRC Company Law" | Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time |

| | |
|---|---|
| "connected person(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Consideration Share(s)" | 1,678,461,809 Domestic Shares to be allotted and issued by the Company to Huijin to settle all the consideration under the Equity Transfer Agreement |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會) |
| "Debt Financing Instruments" | the onshare and offshare debt financing instruments issued and to be issued by the Company according to the approval of the Shareholders at the AGM |
| "Delivery Date" | a date on which the necessary registrations and filings with relevant administration for industry and commerce authorities in relation to the change of the shareholder of CISC from Huijin to the Company are completed or such other date as agreed by Huijin and the Company |
| "Director(s)" | the director(s) of the Company |
| "Domestic Share(s)" | issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) subscribed for or credited as fully paid in RMB |
| "Domestic Shareholders' Class Meeting" | the meeting of Shareholders holding Domestic Shares of the Company |
| "EGM" | the extraordinary general meeting of the Company for the purpose of, among others, approving the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver |
| "EIT" | the PRC enterprise income tax |
| "EIT Law" | Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time |
| "Enlarged Group" | the Company and its subsidiaries upon completion of the Proposed Acquisition |
| "Equity Transfer Agreement" | the equity transfer agreement entered into between the Company and Huijin dated 4 November 2016, pursuant to which the Company has agreed to purchase and Huijin has agreed to sell 100% of the equity interest in CISC |

| | |
|---|---|
| "Executive" | the executive director of the Corporate Finance Division of the SFC or any delegate of such executive director |
| "Financial Advisers" | CICCHKS and ABCI |
| "GDP" | gross domestic product |
| "GIC" | GIC Private Limited, a company incorporated in Singapore in May 1981 and a Shareholder of the Company |
| "Great Eastern" | The Great Eastern Life Assurance Company Limited, a company incorporated in Singapore in 1908 and a Shareholder of the Company |
| "Group", "the Group" | the Company and its subsidiaries |
| "H Share(s)" | ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is (are) listed on the Hong Kong Stock Exchange and are subscribed for and traded in HK dollars |
| "HK dollar", "HK dollars", "HK$" or "HKD" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Huijin" | Central Huijin Investment Ltd.* (中央匯金投資有限責任公司), a wholly state-owned company ultimately owned by the PRC Government, which directly and indirectly held approximately 28.57% of the equity interest in the Company as at the Latest Practicable Date |
| "H Shareholders' Class Meeting" | the meeting of Shareholders holding H Shares of the Company |
| "I&G" | China National Investment and Guaranty Corporation* (中國投融資擔保股份有限公司), a company incorporated in the PRC in 1993 and a Shareholder of the Company |
| "IFRSs" | International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee |

| | |
|---|---|
| "Independent Board Committee" | the independent board committee established by the Company (comprising Mr. David Bonderman, Mr. Liu Haifeng David, Mr. Shi Jun, Mr. Cha Mou Daid Johnson, Mr. Edwin Roca Lim, Mr. Liu Li, Mr. Siu Wai Keung and Mr. Ben Shenglin) to advise the Independent Shareholders in connection with the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver |
| "Independent Financial Adviser" or "Somerley" | Somerley Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, which is appointed to advise the Independent Board Committee and the Independent Shareholders in relation to, among others, the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver |
| "Independent Shareholders" | Shareholders other than Huijin, its associates and parties acting in concert with it, together with those who are interested in, or involved in, the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver. When discussing matters in relation to the Shareholders' Class Meetings, reference to "Independent Shareholders" refer to those Independent Shareholders of relevant class of Shares |
| "independent third party(ies)" | a person who, as far as the Directors are aware after having made all reasonable enquiries, is not connected with the Company (within the meaning of the Listing Rules) |
| "IT" | information technology |
| "KKR Institutions Investments" | KKR Institutions Investments L.P., a limited partnership established in Delaware on 8 February 2010 and a Shareholder of the Company |
| "Latest Practicable Date" | 2 December 2016, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication |
| "Listing Rules" or "Hong Kong Listing Rules" | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |

| | |
|---|---|
| "Mingly" | Mingly Corporation, a company incorporated in Cayman Islands, and registered in Hong Kong in 1988 and a Shareholder of the Company |
| "MOF" | Ministry of Finance of the PRC (中華人民共和國財政部) |
| "MOFCOM" | Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "NEEQ" | National Equities Exchange and Quotations (全國中小企業股份轉讓系統) |
| "NSSF" | the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會) |
| "PBOC" | the People's Bank of China (中國人民銀行), the central bank of the PRC |
| "Pearl River Delta" | the region comprising nine prefectures of Guangdong province in China, namely Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen and Zhaoqing |
| "PRC Accounting Standards" | Accounting Standards for Business Enterprises of the PRC |
| "PRC GAAP" | generally accepted accounting principles of the PRC |
| "PRC Government" | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities |
| "PRC Valuer" | China Enterprise Appraisals Co., Ltd.* (北京中企華資產評估有限責任公司), an independent third party |
| "Proposed Acquisition" | the proposed acquisition by the Company of 100% of the equity interest of CISC from Huijin pursuant to the Equity Transfer Agreement |
| "REPOs" | financial assets sold under repurchase agreements |
| "reverse REPOs" | financial assets held under resale agreements |
| "Risk Control Indicator Measures" | Administrative Measures for the Risk Control Indicators of Securities Companies in the PRC (證券公司風險控制指標管理辦法) |
| "RMB" | Renminbi, the lawful currency of the PRC |

| | |
|---|---|
| "ROAE" | the return on average equity, calculated by dividing the profit attributable to owners of a company by the average amount of total equity attributable to owners of such company at the end of the previous period and the end of the current period, and annualizing the result (if applicable) |
| "SAC" | the Securities Association of China (中國證券業協會) |
| "Securities Law" | the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | the share(s) of the Company |
| "Shareholder(s)" | the shareholder(s) of the Company |
| "Shareholders' Class Meetings" | the meeting of the Shareholders holding Domestic Shares and the meeting of the Shareholders holding H Shares, which are to be convened for purpose of approving the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver |
| "SME" | the small and medium enterprises |
| "State Council" | State Council of the PRC (中華人民共和國國務院) |
| "Stock Exchange" or "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Supervisor(s)" | the supervisor(s) of the Company |
| "Takeovers Code" | The Code on Takeovers and Mergers, which is published by the SFC |
| "Tianqi Futures" | China Investment Tianqi Futures Co., Ltd. (中投天琪期貨有限公司), a company incorporated in the PRC in October 1995 and an 80%-owned subsidiary of CISC |
| "Track Record Period" | the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 |
| "Transitional Period" | the period from 1 July 2016 to the Delivery Date (both days inclusive) |

| | |
|---|---|
| "TPG" | TPG Asia V Delaware, L.P., a limited partnership established in the United States in 2009 and a Shareholder of the Company |
| "US$", "USD" or "US dollars" | United States dollars, the official currency of the United States |
| "Whitewash Waiver" | a waiver to be sought from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of Huijin to make a mandatory general offer for all the Shares that are not already owned or agreed to be acquired by it and parties acting in concert with it as a result of the Company allotting and issuing the Consideration Shares to Huijin |
| "Wind Info" | Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a company with limited liability incorporated in the PRC and a service provider of financial data, information and software, being an independent third party of the Company |
| "Yangtze River Delta" | the region comprising Jiangsu province, Zhejiang province and Shanghai in China |

** The English translation or transliteration of the Chinese name(s) in this circular, where indicated, is included for information purposes only, and should not be regarded as the official English name(s) of such Chinese name(s).*

** Certain amounts and percentage figures included in this circular have been subject to rounding.*

*The glossary of technical terms contains explanations of certain technical terms used in this circular in connection with the businesses of the Group and CISC Group.*

| | |
|---|---|
| "ABS" | asset-backed securities |
| "AUM" | the amount of assets under management |
| "average brokerage commission rate" | the ratio of the fee and commission income on the stocks and funds brokerage business divided by the brokerage trading volume for stocks and funds |
| "bps" | basis points |
| "CAGR" | compound annual growth rate |
| "capital-based intermediary" | services that assist clients in trading securities and derivatives, investment and financing by leveraging the securities firm's capital and integrated trading platform, primarily including margin financing and securities lending, securities-backed lending, equity return swaps and market-making |
| "ChiNext Board" | the growth enterprise board launched by the Shenzhen Stock Exchange (深圳證券交易所創業板) |
| "collateral coverage ratio" | for collateralized stock repurchase business and repurchase agreement transaction business, it refers the ratio of the fair value of initial and supplement collateral, less any collateral already released, plus interests and dividends received, divided by the amount payable by the borrower |
| "collective asset management plan(s)" | an asset management contract entered into with multiple clients by a securities firm in the PRC, pursuant to which the clients' assets are placed in custody of commercial banks with qualification to hold client transaction settlement funds or other institutions approved by the CSRC, and the securities firm provides asset management services to the clients through designated accounts |
| "CSI 300 Index" | a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which is compiled by the China Securities Index Company, Ltd.* (中證指數有限公司) |
| "EBITDA" | earnings before interest, taxes, depreciation and amortization |

| | |
|---|---|
| "ETFs" | exchange-traded funds |
| "headquarters" | head office of the Company |
| "IPO" | initial public offering |
| "IT" | information technology |
| "HIBOR" | Hong Kong Interbank Offered Rate |
| "LIBOR" | London Interbank Offered Rate |
| "LOF" | listed open-ended fund |
| "M&A" | mergers and acquisitions |
| "Net Capital" | equals net assets minus risk-adjusted financial assets minus other risk-adjusted assets and contingent liability plus/ minus capital from other adjustments recognized or approved by the CSRC |
| "OTC" | over-the-counter |
| "Panda bond(s)" | RMB-denominated bond(s) issued by foreign issuer(s) and sold in the PRC |
| "PBOC benchmark interest rate" | the benchmark demand deposit and loan rate set by the PBOC on financial institutions' Renminbi deposits |
| "QDII" | Qualified Domestic Institutional Investor* (合格境內機構投資者) |
| "QFII" | Qualified Foreign Institutional Investor* (合格境外機構投資者) |
| "Red Chip" | a China-based company incorporated outside of China and listed on the Hong Kong Stock Exchange |
| "RQFII" | Renminbi Qualified Foreign Institutional Investor* (人民幣合格境外機構投資者), a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC brokerage companies and fund houses to facilitate investments of offshore Renminbi into the PRC capital markets |
| "Shanghai-Hong Kong Stock Connect" | a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for mutual market access between Hong Kong and Shanghai |

| | |
|---|---|
| "Shenzhen-Hong Kong Stock Connect" | a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shenzhen Stock Exchange, HKSCC and CSDCC for mutual market access between Hong Kong and Shenzhen |
| "SIFMA" | Securities Industry and Financial Markets Association in the United States |
| "SME Board" | the Small and Medium Enterprises Board of the Shenzhen Stock Exchange (深圳證券交易所中小企業板) |
| "sponsor representative" | a professional representative qualified in the PRC to sponsor and execute the offering and listing of securities pursuant to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities of the PRC (2009 Revision) (證券發行上市保薦業務管理辦法(2009年修訂)) |
| "stock index futures" | cash-settled standardized futures contracts on the value of a particular stock market index |
| "stock repurchase" | securities repurchase business, a transaction pursuant to the securities repurchase agreement, in which an eligible investor sells its securities to a securities firm and agrees to repurchase such securities at a fixed price on an agreed future date |
| "targeted asset management plan(s)" | a targeted asset management contract entered into by a securities firm in the PRC with a single client, pursuant to which the securities company provides asset management services to the client through accounts under the client's name |
| "structured notes" | a debt financing instrument issued by PRC securities firms that makes payments of return linked with the underlying assets and the principal when due |
| "ST stocks" | shares under special treatment by Shanghai Stock Exchange or Shenzhen Stock Exchange due to abnormal financial conditions and other matters of the issuers |
| "TMT" | telecommunications, media and technology |
| "VaR" | value at risk |

This circular contains forward-looking statements that state the intentions, beliefs, expectations or predictions of the Company, CISC and the Enlarged Group for the future that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in "Risk Factors", which may cause the actual results, performance or achievements of the Group, CISC and/or the Enlarged Group to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These forward-looking statements include all statements in this circular that are not historical facts, including, without limitation, statements relating to:

- the nature of, potential for, and the future development of overall business and business lines of CISC;
- the Enlarged Group's operations and business prospects;
- the Enlarged Group's scale, nature, potential, future developments;
- the Enlarged Group's business, results of operations, anticipation financial matters of financial position;
- the strategies, plans, purpose, goals, implementation strategies, ability of achieving the plans, purpose and goals of the Enlarged Group;
- the future development, trend and conditions of securities industry and economy in the PRC;
- the regulatory environment and overall prospects in the PRC; and
- the general political and economic environment in the PRC.

When used in this circular, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Company, CISC and/or the Enlarged Group, are intended to identify forward-looking statements. Such forward-looking statements reflect the views of the management of the Company or CISC (as the case may be) as of the date of this circular with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Although the Directors believe that the expectations reflected in such forward-looking statements are reasonable, actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- the Enlarged Group's ability to integrate all its businesses;
- the Enlarged Group's ability to obtain adequate financing on terms acceptable to it;
- the Enlarged Group's levels of indebtedness and interest payment obligations;

- the Enlarged Group's ability to effectively manage its expansion plans;
- the Enlarged Group's ability to stay abreast of market trends;
- the Enlarged Group's ability to retain core team members and attract qualified and experienced personnel;
- the Enlarged Group's ability to liquidate assets in response to changes in economic and financial condition, as necessary;
- the Enlarged Group's ability to maintain and renew the permits and licenses it requires to undertake its business operations;
- prospective financial information of the Enlarged Group; and
- other factors beyond the Company's control.

Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove to be incorrect, the results of operations and financial condition of the Company, CISC and/or the Enlarged Group may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking statements. Moreover, the forward-looking statements should not be regarded as representations by the Company that its plans and objectives will be achieved or realized. The forward-looking statements in this circular reflect the views of the management of the Company or the management of CISC as of the date of this circular and are subject to change in light of future developments. Subject to the requirements of the Listing Rules, the Company does not intend to update or otherwise revise the forward looking statements in this circular, whether as a result of new information, future events or otherwise.

CICC 中金公司

**China International Capital Corporation Limited**
**中國國際金融股份有限公司**
*(A joint stock limited company incorporated in the People's Republic of China)*
**(Stock Code: 3908)**

**The Board of Directors:**
*Non-executive Directors:*
Mr. Ding Xuedong (*Chairman*)
Ms. Zhao Haiying
Mr. David Bonderman
Mr. Liu Haifeng David
Mr. Shi Jun
Mr. Cha Mou Daid Johnson

*Executive Director:*
Mr. Bi Mingjian (*Chief Executive Officer*)

*Independent Non-executive Directors:*
Mr. Edwin Roca Lim
Mr. Liu Li
Mr. Siu Wai Keung
Mr. Ben Shenglin

*Registered Office and Head Office in the PRC:*
27th and 28th Floor
China World Office 2
1 Jianguomenwai Avenue
Chaoyang District
Beijing, PRC

*Principal Place of Business in Hong Kong:*
29/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

5 December 2016

*To the Shareholders*

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN CISC AND THE PROPOSED ISSUE OF THE CONSIDERATION SHARES**
**(2) APPLICATION FOR THE WHITEWASH WAIVER**
**(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**
**AND**
**(4) PROPOSED INCREASE OF THE ISSUE SIZE OF THE DEBT FINANCING INSTRUMENTS**

## INTRODUCTION

We refer to the Announcement of the Company dated 4 November 2016 in connection with, among other things, the Proposed Acquisition. We also refer to the circular of the Company dated 22 April 2016 in connection with, among other things, the authorization of issue of Debt Financing Instruments. The purpose of this circular is to provide you with, among other things, (i) further details of the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association), (ii) further information about the Whitewash Wavier, (iii) the details of the proposed increasing of the authorized issue size of onshore and offshore debt financing instruments, (iv) the recommendation of the Independent Board Committee in relation to the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver, (v) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver, (vi) certain information of the Company, CISC and the Enlarged Group, and (vii) summary of valuation report of CISC Group.

## PART A — THE PROPOSED ACQUISITION AND THE PROPOSED ISSUE OF THE CONSIDERATION SHARES

### I. INTRODUCTION

The Board is pleased to announce that, on 4 November 2016, the Company and Huijin, a substantial Shareholder of the Company, entered into the Equity Transfer Agreement, pursuant to which, the Company has agreed to acquire, and Huijin has agreed to sell, 100% of the equity interest of CISC, subject to satisfaction of the conditions precedent stipulated under the Equity Transfer Agreement.

### II. THE PROPOSED ACQUISITION

#### (A) Principal Terms of the Equity Transfer Agreement

| | |
|---|---|
| **Date:** | 4 November 2016 |
| **Parties:** | The Company (as the purchaser); and<br><br>Huijin (as the vendor). |
| **Subject:** | 100% of the equity interest of CISC held by Huijin. |
| **Consideration:** | The consideration for the Proposed Acquisition is RMB16,700.695 million (equivalent to approximately HK$19,391.903 million). |
| **Consideration Shares:** | The consideration for the Proposed Acquisition will be satisfied by the issue of 1,678,461,809 Consideration Shares to Huijin at an issue price of RMB9.95 per Consideration Share (equivalent to approximately HK$11.55 per Consideration Share) (subject to adjustment). |

**Adjustment of the issue price per Consideration Share:**

If, during the period starting from the date of the Equity Transfer Agreement to the Closing Date, the Company declares or makes any distribution of dividends (whether in cash or in kind) to the Shareholders or transfers its capital reserve into registered capital, the issue price per Consideration Share will be adjusted in accordance with the following mechanism:

| | |
|---|---|
| Scenario (a). | in the event of a distribution of bonus Shares or transfer of capital reserve into registered capital: $P_1=P_0/(1+n)$; |
| Scenario (b). | in the event of a rights issue: $P_1=(P_0+Axk)/(1+k)$; |
| Scenario (c). | in the event of a declaration of cash dividend: $P_1=P_0-D$; |
| Scenario (d). | in the event that Scenarios (a) and (b) are announced at the same time: $P_1=(P_0+Axk)/(1+n+k)$; and |
| Scenario (e). | in the event that Scenarios (a), (b) and (c) are announced at the same time: $P_1=(P_0-D+Axk)/(1+n+k)$, |

among which,

- $P_1$ represents the issue price per Consideration Share after adjustment;
- $P_0$ represents the issue price per Consideration Share before any adjustment, which is RMB9.95 per Consideration Share (equivalent to approximately HK$11.55 per Consideration Share);
- *n* represents the ratio for the bonus issue or the transfer of capital reserve into registered capital;
- *A* represents the price per rights share in the event of a rights issue;
- *k* represents the ratio of a rights issue in percentage terms; and
- *D* represents the amount of cash dividend per Share paid in the event of a declaration of cash dividend.

In the event of an adjustment to the issue price per Consideration Share, the number of the Consideration Shares to be issued will be adjusted accordingly.

Other than adjustment made in accordance with the mechanism above or any legal or regulatory authorities' requirements or any written agreement between the Company and Huijin, no adjustment shall be made to the issue price per Consideration Share. Further announcement(s) will be made by the Company in the event of an adjustment.

**Conditions precedent:**

The completion of the Proposed Acquisition will be conditional upon the fulfilment of the following conditions:

- the completion and fulfillment of internal approval procedures by the Company, including obtaining approvals from the Independent Shareholders at the EGM and the Shareholders' Class Meetings on the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver;
- approvals from the MOF and the CSRC on the Proposed Acquisition having been obtained;
- approval from the CSRC Shenzhen branch in relation to the change of the shareholder of CISC;
- the Stock Exchange having confirmed that it has no comments on the circular to be issued in connection with the Proposed Acquisition; and
- the Whitewash Waiver having been granted.

None of the conditions above can be waived by the parties to the Equity Transfer Agreement.

**Delivery Date and Closing Date:**

Upon fulfillment of the conditions precedent to the completion of the Proposed Acquisition, both parties shall, within 20 business days thereof, use their best efforts to effect necessary filings with relevant administration for industry and commerce authorities in relation to the change of the shareholder of CISC from Huijin to the Company.

The Delivery Date will be the date when such filings are completed or such other date as agreed by Huijin and the Company. Since the Delivery Date, the legal title of the equity interest in CISC will be passed to the Company and the Company will be entitled to exercise its rights as the sole shareholder of CISC.

Both parties shall use their best efforts to register the Consideration Shares with CSDCC within 20 business days after the Delivery Date. The Consideration Shares will be issued on the same date when they are registered with CSDCC. The date on which the Consideration Shares are issued and registered with CSDCC shall be deemed to be the Closing Date of the Proposed Acquisition.

Unless otherwise extended by both parties in writing, if the Proposed Acquisition is not completed before 30 June 2017, either party can terminate the Equity Transfer Agreement by serving a written notice to the other party.

**Arrangement during transitional period:**

*(i). Arrangement in relation to the profit and loss of CISC*

Both parties agree that Huijin shall be entitled to the profit earned, and be responsible for the losses incurred, by CISC during the Transitional Period. The amount will be determined based on the audited profit attributable to owners of CISC for the period from 1 July 2016 to the last day of the calendar month in which the Delivery Date falls (the "**Special Audit Period**"). The profit attributable to owners of CISC during the Special Audit Period will be distributed to Huijin as a special dividend (the "**Special Dividend**"). If the Special Dividend cannot be distributed to Huijin in full due to requirements of applicable laws and regulations of the PRC, CISC shall use its retained profits as of the Base Reference Date to make up for the difference so that the full amount of the Special Dividend is received by Huijin. If CISC incurs any losses during the Special Audit Period, Huijin will compensate CISC by cash for such loss.

The Special Dividend or cash compensation will be made within 30 days after the issue of the audited financial statements for the Special Audit Period. The audited financial statements for the Special Audit Period shall be issued within 90 days after the last day of the Special Audit Period. The distribution of the Special Dividend will not trigger any adjustment to the issue price per Consideration Share.

*(ii). Arrangement in relation to the operation of CISC*

Huijin shall:

- unless otherwise stipulated under the Equity Transfer Agreement or agreed by the Company in writing, procure CISC to operate its business with due care, in compliance with PRC laws and in a way consistent with prior business practices; and

- notify the Company in a timely manner of any material changes in connection with CISC that has come to its knowledge.

Except for the Special Dividend, without the prior written consent of the Company, CISC should not declare or make any distribution of dividends (whether in cash or in kind) during the Transitional Period.

From the date of the Equity Transfer Agreement to the Delivery Date, each of the Company and Huijin shall, and Huijin shall procure CISC to, use its best efforts to advance the integration and consolidation, subject to compliance with applicable laws and regulations.

| | |
|---|---|
| **Existing contractual arrangement:** | The Proposed Acquisition does not involve any alteration to CISC's existing contractual arrangements. CISC will remain responsible for its existing contractual obligations before and after the Proposed Acquisition. |
| **Lock-up arrangement:** | Subject to compliance with applicable laws and regulations, the Consideration Shares will be subject to a 60-month lock-up period starting from the Closing Date, during which period Huijin cannot dispose of its interests in the Consideration Shares. |

(B) **Basis of the Consideration**

The consideration for the Proposed Acquisition is RMB16,700.695 million (equivalent to approximately HK$19,391.903 million) which is determined with reference to the Appraisal Value of RMB16,700.695 million, having considered (i) the landscape and prospects of the securities industry; (ii) the financial performance and future development of CISC; and (iii) the synergies and benefits that are expected to be derived from the Proposed Acquisition.

The Appraisal Value has been approved by the MOF. A summary of the valuation report containing the Appraisal Value is included in Appendix VII of this circular.

The Board noted the matters concerning certain properties owned or leased by CISC as disclosed in section headed "Special Issues Explanation" of the Valuation Report. As such matters have not materialized or been subject to imminent regulatory actions, it is beyond the professional practice levels and valuation capabilities of the PRC Valuer to determine the impact of such matters on the Appraisal Value. Accordingly, under the relevant valuation standards, such matters are not required to be factored in the Appraisal Value. The PRC Valuer also confirmed that this approach is consistent with the PRC regulatory requirements and will not affect the objectivity of the Valuation Report.

While the matters identified in the "Special Issues Explanation" section of the Valuation Report did not affect the Appraisal Value, when considering the consideration of the Proposed Acquisition, the Company has considered the potential impact of such matters, including the maximum exposure to CISC in connection with the matters identified in the "Special Issues Explanation" section of the Valuation Report in monetary amount which is estimated at approximately RMB112.2 million in a worst case scenario based on consideration of, among other things, the following factors, in particular,

(i) in respect of the 14 properties owned by CISC without obtaining the building ownership certificates, CISC cannot obtain such certificates from the Shenzhen Housing Authority as these properties are under the local government housing scheme for talents and other qualified citizens of Shenzhen and only individuals and families are eligible to apply for the building ownership certificates/land use rights certificates. As confirmed by the PRC legal advisers of the Company, as the 14 properties were lawfully acquired by CISC from Shenzhen Housing Authority, according to *Reformation and Innovation Policy on Housing System of Shenzhen* (《深圳市住房保障制度改革創新綱要》), a governmental policy published by the Shenzhen Municipal People's Government permitting enterprises (such as CISC) to purchase public rental housing to provide housing and accommodation for their staff and the agreements entered into with Shenzhen Housing Authority, CISC is entitled to occupy and use such properties to provide housing and accommodation for its staff and CISC should not be subject to any fines provided it shall not use such properties for any other purposes or breach the terms of the agreements entered into with Shenzhen Housing Authority. Given the Appraisal Value is based on the discounted future cash flows approach, no separate value is attributed to the 14 properties in the Appraisal Value. In accordance with the *Guidance on the Valuation of Financial Enterprises* (《金融企業評估報告指南》) published by the Ministry of Finance, the PRC Valuer is, nevertheless, required to disclose the title defects of the fixed assets of CISC in its report. In addition, CISC is able to substitute such properties with other comparable buildings, if necessary, without material adverse impact on its operations, business or financial condition,

(ii) in respect of the return of 20% of the land use rights on the Land B203-0021, CISC would receive a refund of land premium with an amount equal to the value of the 20% of the land use rights on such land and therefore suffer no loss in the event of a return of the land use rights,

(iii) in respect of the possible exposure to idle land penalties, the relevant fees required to be paid would not be material as the maximum exposure to CISC in respect of the idle land fees, in a worst case scenario, amounts to approximately RMB112.2 million, representing less than 1% of the total revenue of CISC for the year ended 31 December 2015, and

(iv) other factors the Board took into consideration as discussed above, including the landscape and prospects of the securities industry, the financial performance and future development of CISC, and the synergies and benefits that are expected to be derived from the Proposed Acquisition.

Based on the above, the Board is of the view that the consideration for the Proposed Acquisition is fair and reasonable.

For details of the properties of CISC, please refer to the section headed "Properties" in "Appendix VI — Information about CISC" on pages VI-106 to VI-110 of this circular.

(C) **The Consideration Shares**

The consideration for the Proposed Acquisition will be satisfied by the issue of 1,678,461,809 Consideration Shares to Huijin (subject to adjustment as detailed above). The issue price of RMB9.95 per Consideration Share (equivalent to approximately HK$11.55 per Consideration Share) was determined following arm's length negotiation between the Company and Huijin with reference to the recent stock price of the H Shares of the Company. The issue price of RMB9.95 per Consideration Share (equivalent to approximately HK$11.55 per Consideration Share) represents:

- a discount of 0.6% to closing price of the H Shares of the Company as quoted on the Stock Exchange for the last trading day prior to the date of the Announcement;

- a premium of 0.5% to the volume weighted average price ("**VWAP**") of the H Shares of the Company as quoted on the Stock Exchange for the 5 trading days immediately before the date of the Announcement;

- a discount of 0.5% to the VWAP of the H Shares of the Company as quoted on the Stock Exchange for the 10 trading days immediately before the date of the Announcement;

- a premium of 1.6% to the VWAP of the H Shares of the Company as quoted on the Stock Exchange for the 20 trading days immediately before the date of the Announcement;

- a discount of 0.0% to the VWAP of the H Shares of the Company as quoted on the Stock Exchange for the 90 trading days immediately before the date of the Announcement;

- a discount of 0.7% to the VWAP of the H Shares of the Company as quoted on the Stock Exchange for the 120 trading days immediately before the date of the Announcement; and

- a premium of 48.5% to the latest published audited net assets per Share attributable to shareholders/equity holders of the Company, being RMB6.7 per Share.

The Consideration Shares will be issued as fully paid, and will rank pari passu in all respects with the Domestic Shares of the Company in issue on the Closing Date of the Proposed Acquisition.

(D) **Business of CISC**

CISC is a fully-licensed securities firm in the PRC with an extensive and well-established branch network, a large customer base and an integrated business platform. CISC was formed out of the securities-related assets from China Southern Securities Joint Stock Co., Ltd., one of the first PRC securities service providers. Leveraging its proven track record and full securities business licences, CISC provides a comprehensive range of securities products and services to serve various needs of corporate, individual, institutional and government clients.

The table below sets forth the structure of CISC's five business lines:

| Brokerage | Investment Banking | Asset Management | Proprietary Trading | Others |
|---|---|---|---|---|
| • Securities brokerage services | • Equity financing | • Collective asset management schemes | • Fixed-income investment | • Institutional sales and trading |
| • Capital-based intermediary services | • Debt financing | • Targeted asset management schemes | • Equity trading | • OTC business |
| • Futures brokerage | • Financial advisory services | • Specialized asset management schemes | | • Private equity |
| | • NEEQ services | | | • Alternative investment |
| | | | | • Hong Kong business |

***Brokerage***

The brokerage business of CISC primarily comprises the following:

- Securities brokerage services: CISC executes trades on behalf of its clients in stocks, funds and bonds;

- Capital-based intermediary services: CISC provides its brokerage clients with a number of capital-based intermediary services including margin financing services and securities lending services and stock-backed lending and stock repurchase services; and

- Futures brokerage: CISC provides futures brokerage services and products in the PRC.

The brokerage business of CISC accounted for the largest portion of its total revenue and other income during the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. For the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, segment revenue and other income from its brokerage business amounted to RMB3,026.3 million, RMB4,375.4 million, RMB10,627.9 million and RMB2,610.2 million, respectively, representing 82.6%, 85.0%, 85.1% and 75.1% of its total revenue and other income, respectively.

***Investment Banking***

The investment banking businesses of CISC cover the following activities:

- Equity financing: CISC provides equity underwriting services, including IPOs, follow-on offerings (such as private placement and rights issues) and convertible bond offerings for PRC corporate clients;

- Debt financing: CISC provides its clients with debt underwriting services which include enterprise bonds, corporate bonds, debt financing instruments of non-financial institutions, financial bonds and ABS;

- Financial advisory services: CISC advises M&As and restructuring for PRC corporate clients; and

- NEEQ services: CISC provides recommendation services to help non-listed public companies to enter into the NEEQ for share quotation and transfer.

For the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, segment revenue and other income from CISC's investment banking business amounted to RMB141.1 million, RMB173.0 million, RMB583.1 million and RMB359.6 million, respectively, representing 3.9%, 3.4%, 4.7% and 10.3% of its total revenue and other income, respectively.

***Asset Management***

The asset management services of CISC primarily include:

- Collective asset management schemes: CISC manages assets for a group of clients through designated accounts pursuant to applicable laws and in accordance with the collective asset management contracts;

- Targeted asset management schemes: CISC manages assets for a single client pursuant to the specific terms of the bilateral contracts with the client through a designated account; and

- Specialized asset management schemes: CISC manages client's certain assets for a specific purpose.

For the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, segment revenue and other income from CISC's asset management business amounted to RMB107.5 million, RMB158.7 million, RMB257.5 million and RMB141.0 million, respectively, representing 2.9%, 3.1%, 2.1% and 4.1% of its total revenue and other income, respectively.

***Proprietary Trading***

The proprietary trading business of CISC covers the following activities:

- Fixed-income investment: CISC engages in the trading of various types of fixed-income securities for its own account on the PRC interbank bond market and stock exchanges; and

- Equity trading: CISC engages in the trading of stocks, ETFs and derivatives for its own account.

For the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, segment revenue and other income from CISC's proprietary trading business amounted to RMB112.1 million, RMB84.0 million, RMB252.4 million and RMB53.8 million, respectively, representing 3.1%, 1.6%, 2.0% and 1.5% of its total revenue and other income, respectively.

***Other Businesses***

The businesses of CISC also cover the following activities:

- Institutional sales and trading: CISC leases its participated business units to its institutional clients for securities trading on stock exchanges and earns trading commissions, and provides research services to facilitate their investment decisions;

- OTC business: the OTC business of CISC primarily involves market-making services for NEEQ companies and provision of beneficiary certificate products and other trading services for investors in the OTC market;

- Private equity: the private equity business of CISC involves private equity investment and management of private equity funds;

- Alternative investment: the alternative investment activities of CISC primarily involve investments in share equity, properties and financial products related to share equity and properties, through establishment of investment funds or equity investments using funds from its clients; and

- Hong Kong business: CISC conducts its oversea business mainly through CIS HK.

For the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, segment revenue and other income from CISC's other businesses amounted to RMB276.2 million, RMB358.2 million, RMB760.9 million and RMB310.3 million, respectively, representing 7.5%, 7.0%, 6.1% and 8.9% of its total revenue and other income, respectively.

Further details on the business of CISC is set out in Appendix VI of this circular.

(E) **Reasons for and Benefits of the Proposed Acquisition**

The Proposed Acquisition represents a unique opportunity for the Company to embrace market opportunities and enhance its leading position in the securities industry since its listing.

The Directors (excluding those Directors in the Independent Board Committee, who will give their opinion based on the recommendations of the Independent Financial Adviser) consider that the terms of the Proposed Acquisition are fair and reasonable, and in the interests of the Company and the Shareholders, taken as a whole.

The following is a summary of the reasons for and benefits of the Proposed Acquisition.

a) **Historical opportunity in furthering the Company's wealth management business**

The Proposed Acquisition represents a historical opportunity for the Company to further its wealth management business.

- **The Company wishes to position itself to better capture opportunities arising from the wealth management industry of China. According to the Company's analysis based on publicly available information, the wealth management industry of China is entering into a period of rapid growth against a background of increasing household wealth and strong demand for investment products and related services.** According to the estimate of the Company, from 2012 to 2015, the total household assets of the PRC increased from RMB110 trillion to RMB176 trillion, among which, the proportion accounted for by financial investments increased from 20.5% to 26.5%. Given the decline in return from traditional commercial bank-dominated investment products, the PRC capital market has become one of the main investment channels for PRC residents. Based on the estimate of the Company, for the three years ended 31 December 2015, the trading volume of PRC retail investors accounted for the vast majority of the trading volume of the PRC stock markets. With the continuous development of PRC stock markets and increasing awareness in wealth management by PRC residents, securities companies with a large scale, solid customer base and strong products capabilities are well positioned to seize the opportunities in the wealth management market in China.

- **The Proposed Acquisition is in line with the Company's strategies**. The Company pioneered the wealth management business by first introducing a model driven by advisory services in China. Wealth management business has become one of the five principal business segments of the Company with a strong base of high-end customers. Looking ahead, it is part of the Company's strategic development plan to further seize market opportunities and expand the scale of its wealth management business. However, the competition in the PRC wealth management industry has become increasingly intense with both traditional financial institutions and emerging Internet players staking their claims. Relying merely on organic growth is not sufficient to effectively meet customer needs and achieve economies of scale. Therefore, the Proposed Acquisition offers an excellent opportunity for the Company to expand its scale and promote its wealth management business by maximizing the synergies between the two entities.

- **The Proposed Acquisition will enable the Company to strengthen its competitive edge in providing diversified and sophisticated products and services.** With the demand for financing and financial services becoming more diversified and sophisticated, the Company has launched a number of innovative products to meet clients' specific demands in addition to the standard products. Facing increasing new demands, the Company has built up a competitive edge in providing sophisticated products and high-end services to its high-net-worth customers. It is expected that after completion of the Proposed Acquisition, the Company will be able to leverage the extensive branch network and solid high-net-worth customer base of CISC, which will enhance the Company's competitive position in providing diversified and sophisticated products and services and ensure sustained growth.

b) **Expansion of the Company's other existing businesses by utilizing the strong brokerage business and network of CISC**

The key strength of CISC's business as compared with the Company is that CISC has a more extensive local network and a large, loyal and high-quality retail client base. Over the last decade, CISC has developed into a full service securities firm with a national presence and well-perceived brokerage business brand. As at 30 June 2016, CISC had 192 branches in 28 provinces in the PRC, covering cities with active trading and concentrated wealth (as a comparison, as at 30 June 2016, the Company had 20 branches in 18 cities in the PRC). Such key strengths are expected to create significant cross-selling opportunities for the Company's investment banking, equity sales and trading, fixed income, commodities and currencies and investment management businesses. The extensive and deep local connections of CISC, along with a qualified and sizable investment banking team, may also enable the Company to strengthen its investment banking business, particularly in the small-and-medium-sized enterprises segment.

c) **Broadening the Company's customer base with optimised business structure**

The Proposed Acquisition is expected to further optimise the business structure of the Company with a more balanced mix of institutional brokerage, wealth management, investment banking and other businesses. The Company and CISC's business structures are significantly different given their different development paths.

- Brokerage business is the core business of CISC and represents 85.1% of its total revenue and other income for the year ended 31 December 2015.

- The secondary market business (comprising the equity sales and trading business and the wealth management business) of the Company represents 45.6% of its total revenue and other income for the year ended 31 December 2015 and the investment banking business represents 24.5% of its total revenue and other income for the year ended 31 December 2015.

- In addition, the Company has historically been focusing on large-scale corporate and institutional clients, while CISC has a strong presence in the small-and-medium-sized enterprises and retail customers.

- The Proposed Acquisition is expected to help the Company achieving a more balanced client base and business mix such that its exposure to any single client segment and business activity is reduced and its ability to deal with fluctuations in the capital market enhanced.

d) **Satisfactory financial performance and increase in shareholders' value**

CISC's business experienced rapid growth from 2013 to 2015. Attributable to strong performance of the A-share stock market and more importantly, CISC's prudent business and financial strategy with a long-term perspective, CISC's total revenue and other income increased from RMB3,663.3 million in 2013 to RMB5,149.5 million in 2014, and further increased to RMB12,481.9 million in 2015. Its profit before income tax increased from RMB1,038.0 million in 2013 to RMB1,686.6 million in 2014, and further increased to RMB4,885.6 million in 2015. The profit for the year attributable to owners of CISC increased from RMB756.7 million in 2013 to RMB1,243.9 million in 2014, and furtherincreased to RMB3,639.4 million in 2015. Accordingly, CISC achieved higher than industry average ROAE during the three years ended 31 December 2013, 2014 and 2015. The following table sets forth the ROAE of CISC as compared to that of the industry average.

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| CISC's ROAE | 9.0% | 13.1% | 30.2% |
| Industry average ROAE (based on data from the SAC) | 6.6% | 12.5% | 21.5% |

Largely due to a less favorable condition of the A-share stock market in the first half of 2016 as compared to the same period of 2015, which resulted in a decrease in brokerage trading volume of stocks and funds and a decrease in segment revenue and other income of brokerage of PRC securities companies, CISC's total revenue and other income, profit before income tax and profit for the period attributable to owners of CISC decreased to RMB3,474.9 million, RMB1,053.0 million and RMB783.3 million, respectively, in the first half of 2016 from RMB7,131.6 million, RMB3,282.3 million and RMB2,453.8 million, respectively, in the same period in 2015. Nevertheless, benefiting from CISC's strict observance of its prudent business and financial strategy, enhanced compliance and risk management practices as well as concerted effort of its management and employees, CISC achieved an ROAE of 10.9% as compared to an industry average of 8.6% for the six months ended 30 June 2016.

e) **Strengthened capital position and better competitive position in the industry**

The greater size and scale resulting from the Proposed Acquisition will enhance the competitiveness of the Company and strengthen its capital position providing stronger capability to weather the risks in the market.

- As at 31 December 2015, the net assets of the Company and CISC amounted to RMB16,442.0 million and RMB14,066.5 million, respectively.

- Based on the unaudited pro forma financial information of the Enlarged Group, the Enlarged Group would have net assets of RMB33,874.7 million as at 30 June 2016 assuming the Proposed Acquisition had been completed on 30 June 2016.

- In addition, according to the ranking published by the SAC, for the year ended 31 December 2015, the Company and CISC ranked the 23rd and the 17th, respectively, in the securities industry in China in terms of revenue, and the 22nd and the 25th, respectively, in terms of net assets as at 30 June 2016.

- The Enlarged Group would have ranked the 12th in the securities industry in China in terms of net assets as at 30 June 2016 based on the unaudited pro forma financial statements of the Enlarged Group, and the 4th in terms of market value of securities in custody as at 31 December 2015, making it one of the medium-to-large size securities companies in China.

(F) **Prospects and Future Plan**

China has entered into a new development phase of economic transformation and upgrading and has ushered in a new era of deepening reform in all respects. Development of larger-scale leading securities firms will contribute to the establishment of multi-layer capital markets and transformation of the PRC's economic structure. Leveraging on the comparative advantages of each entity, the Proposed Acquisition will enhance the overall competitiveness of the wealth management business of the Enlarged Group and further promote the development of other businesses, including the investment banking business. Benefiting from the synergy to be derived from the Proposed Acquisition, the Enlarged Group will have a more balanced business structure and a significantly reinforced market position, accelerating the realization of its objective of becoming a world-class investment bank with global influence.

Further details on the future plan for the Proposed Acquisition is set out in the section headed "Synergies and Future Plans of the Proposed Acquisition".

(G) **Financial Effects of the Proposed Acquisition**

a) **Basic financial information of the Company and CISC**

A summary of (i) the audited financial information of the Company for the three years ended 31 December 2013, 2014 and 2015, and (ii) the unaudited financial information of the Company for the six months ended 30 June 2016, which has been reviewed by KPMG and has been disclosed in the Company's interim report for the six months ended 30 June 2016, is set out below. Such financial results of the Company were prepared in accordance with the International Financial Reporting Standards.

| (in RMB millions) | As at/for the year ended 31 December 2013 | 2014 | 2015 | As at/for the six months ended 30 June 2016 |
|---|---|---|---|---|
| **Total revenue and other income** | 4,064.8 | 6,155.8 | 9,506.7 | 3,220.8 |
| **Profit for the year/period attributable to shareholders/equity holders of the Company and holders of other equity instruments** | 370.1 | 1,118.5 | 1,952.6 | 574.9 |
| **Total assets** | 32,834.5 | 52,700.1 | 94,108.8 | 107,572.3 |
| **Total equity attributable to shareholders/equity holders of the Company and holders of other equity instruments** | 6,866.8 | 7,992.2 | 16,442.0 | 17,037.9 |

The audited financial statements of CISC, which were prepared in accordance with the IFRSs, is included in Appendix IV of this circular. A summary of the financial results of the CISC is set out below:

| | As at/for the year ended 31 December 2013 | 2014 | 2015 | As at/for the six months ended 30 June 2016 |
|---|---|---|---|---|
| | (in RMB millions) | | | |
| **Total revenue and other income** | 3,663.3 | 5,149.5 | 12,481.9 | 3,474.9 |
| **Profit for the year/period attributable to owners of CISC** | 756.7 | 1,243.9 | 3,639.4 | 783.3 |
| **Total assets** | 31,619.8 | 65,513.3 | 96,560.0 | 84,555.2 |
| **Total equity attributable to owners of CISC** | 8,827.5 | 10,121.4 | 13,978.5 | 14,719.8 |

b) **Analysis of key financial information of the Enlarged Group**

Upon completion of the Proposed Acquisition, CISC will be 100% owned by the Company and CISC Group will become wholly-owned subsidiaries of the Company, and their financial information will be consolidated into the financial statements of the Enlarged Group.

The following analysis of financial data is based on the unaudited pro forma financial statements of the Enlarged Group as set out in Appendix V of this circular. It is assumed that the Proposed Acquisition had been completed on 30 June 2016 for the unaudited pro forma consolidated statement of financial position and 1 January 2015 for the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated statement of cash flows.

i). ***Assets***

As at 30 June 2016, the consolidated total assets of the Group were RMB107,572.3 million. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total assets of the Enlarged Group as at 30 June 2016 would have been increased to RMB193,785.8 million.

ii). ***Liabilities***

As at 30 June 2016, the consolidated total liabilities of the Group were RMB90,504.5 million. According to the unaudited pro forma financial information, the unaudited pro forma consolidated total liabilities of the Enlarged Group as at 30 June 2016 would have been increased to RMB159,911.1 million.

iii). ***Total Equity***

As at 30 June 2016, the total equity attributable to shareholders/equity holders of the Company and holders of other equity instruments was RMB17,037.9 million. According to the unaudited pro forma financial information, the unaudited pro forma total equity attributable to shareholders/equity holders of the Company and holders of other equity instruments of the Enlarged Group as at 30 June 2016 would have been increased to RMB33,738.6 million.

iv). ***Earnings***

For the year ended 31 December 2015, the profit for the year attributable to shareholders/equity holders of the Company and holders of other equity instruments was RMB1,952.6 million. According to the unaudited pro forma financial information, the unaudited pro forma profit for the year attributable to Shareholders of the Company and holders of other equity instruments of the Enlarged Group for the year ended 31 December 2015 would have been increased to RMB5,550.3 million.

v). ***Report from the Reporting Accountants of the Company in relation to the unaudited pro forma financial information***

A report from KPMG, the Reporting Accountants of the Company, in connection with the above-mentioned unaudited pro forma financial information is included in Appendix V of this circular in accordance with Rule 4.29(7) of the Listing Rules.

(H) **Profit Forecast in relation to the Appraisal Value**

The valuation report prepared by the PRC Valuer was primarily prepared based on the discounted future cash flows approach. Such valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules and Rule 10 of the Takeovers Code, which should be reported on by the Company's Financial Advisers and the reporting accountants under Rule 14.62 of the Listing Rules and Rules 10.3 and 10.4 of the Takeovers Code.

A summary of the valuation report prepared by the PRC Valuer is included in Appendix VII of this circular.

The following are the principal assumptions upon which the discounted future cash flows approach-based valuation is based:

a) **General assumptions**

- CISC will continue its operation after the Base Reference Date;
- the management of CISC will remain responsible, stable and capable of performing their duties after the Base Reference Date, and will operate and manage CISC as planned;
- CISC will be in full compliance with all applicable laws and regulations of the PRC; and
- the economic and political climate, legal and regulatory framework and social environment of the PRC are in a normal state of development; and there will be no unforeseeable force majeure events that would materially and adversely affect the development of CISC after the Base Reference Date. The PRC Valuer confirms that, as at the Latest Practicable Date, it is not aware of any event that would make this assumption inaccurate or incomplete.

b) **Special assumptions**

- the accounting policies adopted by CISC after the Base Reference Date are consistent with the accounting policies adopted by CISC when preparing the valuation report in all material respects;
- the forecast on the profitability and distribution capability of CISC is based on the assumption of maximum distributable dividends of CISC, which is the maximum amount of net profits of CISC that can be declared and distributed as dividend, after satisfying the requirements of various risk control indicators stipulated in the "Administrative Measures for Risk Control Indicators of Securities Companies" (《證券公司風險控制指標管理辦法》) and taking into account a reasonable expectation of the future business operational development; and
- in any given forecasted year/period, the cash inflow and outflow of CISC are evenly spread out throughout such year/period.

A letter from each of KPMG and the Financial Advisers has been submitted to the Stock Exchange and has been lodged with the Executive, and is included in Appendices I and II, respectively, to this circular pursuant to Rule 14.62 of the Listing Rules and Rule 10 of the Takeovers Code.

The qualification of each expert named above is listed below:

| Name | Qualification |
|---|---|
| CICCHKS | Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 ( advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| ABCI | Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| KPMG | Certified Public Accountants |
| PRC Valuer | Independent professional valuer |

CICCHKS is an indirectly wholly-owned subsidiary of the Company. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, each of ABCI, KPMG and the PRC Valuer is a third party independent of and not connected with the Company. As at the date of this circular, none of ABCI, KPMG or the PRC Valuer has any shareholding in any member of the Group directly or indirectly, or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the experts listed above has given and has not withdrawn its consent to the publication of this circular with inclusion of its letter and/or all references to its name in the form and context in which it respectively appears in this circular.

## (I) Information of the Parties

### a) The Company

The principal businesses of the Company are investment banking, equity sales, fixed income, commodities and currencies, wealth management, investment management and relevant financial services.

### b) Huijin

Huijin is a state-owned investment company established in accordance with the PRC Company Law. Huijin, which is headquartered in Beijing, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises, on behalf of the PRC government. In September 2007, the MOF issued special treasury bonds and acquired all the shares of Huijin from the People' Bank of China. The acquired shares were injected into China Investment Corporation as part of its initial capital contribution. However, Huijin's principal shareholder rights are exercised by the State Council. The members of the board of directors and board of supervisors of Huijin are appointed by and are accountable to the State Council. In accordance with the authorization by the State Council, Huijin makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the PRC government in accordance with applicable laws, and to achieve the goal of preserving and enhancing the value of state-owned financial assets. Huijin does not conduct any other business or commercial activity. It does not intervene in the day-to-day business operations of the enterprises in which it invests.

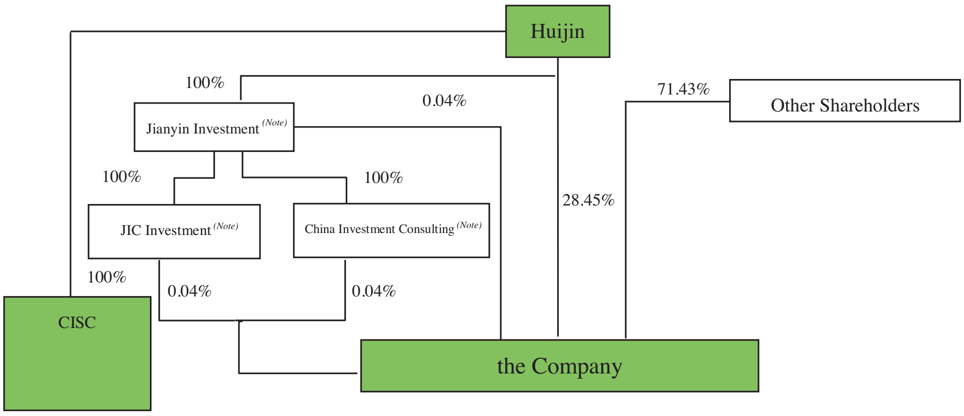
Huijin has been the single largest Shareholder since 2010 when it first became a Shareholder. At the time of the listing of the H Shares on the Stock Exchange on 9 November 2015, Huijin and parties acting in concert with it, directly and indirectly, held 30.01% of the equity interest of the Company. As at the Latest Practicable Date, the Company is directly and indirectly owned as to 28.57% by Huijin and parties acting in concert with it. All shares of the Company held by Huijin are Domestic Shares. As at the Latest Practicable Date, China Jianyin Investment Ltd. (中國建銀投資有限責任公司) (the "**Jianyin Investment**"), wholly-owned by Huijin, is directly interested in 911,600 Domestic Shares, representing 0.04% of the total equity interest of the Company. Each of JIC Investment Co., Ltd. (建投投資有限責任公司) (the "**JIC Investment**") and China Investment Consulting Co., Ltd. (中國投資諮詢有限責任公司) (the "**China Investment Consulting**"), two wholly-owned subsidiaries of Jianyin Investment, is directly interested in 911,600 Domestic Shares, representing 0.04% of the total equity interest of the Company.

c) **CISC**

CISC is a securities company incorporated in the PRC in 2005 and is wholly-owned by Huijin as at the Latest Practicable Date. The principal businesses of CISC are brokerage services, investment banking, asset management, proprietary trading and others.

## (J) Shareholding Structure of the Company

### a) Shareholding structure immediately prior to the completion of the Proposed Acquisition

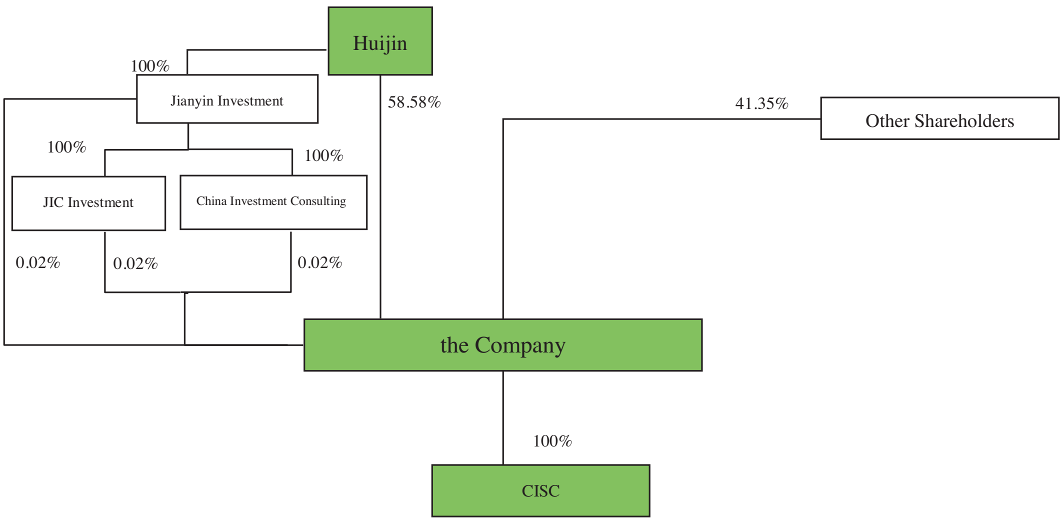



---

*Note:*

As at the Latest Practicable Date, Jianyin Investment is directly interested in 911,600 Domestic Shares, representing 0.04% of the total equity interest of the Company. Jianyin Investment is 100% owned by Huijin. JIC Investment and China Investment Consulting, two wholly-owned subsidiaries of Jianyin Investment, are directly interested in 911,600 and 911,600 Domestic Shares, respectively, representing a total of 0.08% of the total equity interest of the Company. Therefore, Huijin is deemed to be interested in the Domestic Shares held by Jianyin Investment, JIC Investment and China Investment Consulting for the purpose of the SFO.

### b) Shareholding structure immediately following the completion of the Proposed Acquisition



c) **Shareholding information of the Shareholders immediately before and after the completion of the Proposed Acquisition assuming there is no change of the respective Shareholders' shareholding in the Company after the Latest Practicable Date and up to the completion of the Proposed Acquisition**

| | | As at the Latest Practicable Date | | Immediately upon completion of the Proposed Acquisition | |
|---|---|---|---|---|---|
| **Name** | **Class of Shares** | **No. of Shares** | **Approximately percentage of issued share capital** | **No. of Shares** | **Approximately percentage of issued share capital** |
| **Huijin and parties acting in concert with it** .......... | Domestic Shares | 658,928,671 | 28.57% | 2,337,390,480 | 58.65% |
| **China National Investment and Guaranty Corporation** .. | Domestic Shares | 127,562,960 | 5.53% | 127,562,960 | 3.20% |
| **GIC Private Limited** ........ | H Shares | 273,091,435 | 11.84% | 273,091,435 | 6.85% |
| **TPG Asia V Delaware, L.P.** ................................ | H Shares | 171,749,719 | 7.45% | 171,749,719 | 4.31% |
| **KKR Institutions Investments L.P.** ............ | H Shares | 166,747,300 | 7.23% | 166,747,300 | 4.18% |
| **Mingly Corporation** .......... | H Shares | 122,559,265 | 5.31% | 122,559,265 | 3.08% |
| **The Great Eastern Life Assurance Company Limited** .......................... | H Shares | 83,373,650 | 3.61% | 83,373,650 | 2.09% |
| **Other Public Shareholders** .................. | H Shares | 702,656,000 | 30.46% | 702,656,000 | 17.63% |
| **Total** ................................. | | 2,306,669,000 | 100% | 3,985,130,809 | 100% |

*Note:* The Shareholding information of the Shareholders (other than Huijin and parties acting in concert with it) as at the Latest Practicable Date are based on the information recorded in the register required to be kept by the Company under section 352 of the SFO. Huijin and parties acting in concert with it are interested in 2,337,390,480 Domestic Shares (including 1,678,461,809 Consideration Shares to be subscribed for by Huijin pursuant to the Equity Transfer Agreement) as at the Latest Practicable Date.

## (K) Listing Rules Implications

As the highest applicable percentage ratio of the Proposed Acquisition exceeds 100%, the Proposed Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Independent Shareholders.

As at the Latest Practicable Date, Huijin and parties acting in concert with it are, directly and indirectly, interested in 28.57% of the equity interest of the Company. Upon the completion of the Proposed Acquisition, Huijin and parties acting in concert with it will be, directly and indirectly, interested in 58.65% of the equity interest of the Company. Therefore, the Proposed Acquisition will result in Huijin and parties acting in concert with it holding more than 30% of the voting rights in the Company. Accordingly, the Proposed Acquisition constitutes a reverse takeover under Rule 14.06(6)(a) of the Listing Rules. The Company has applied for, and the Stock Exchange has granted, a waiver that the Proposed Acquisition will not be treated as a reverse takeover.

As Huijin is a party to the Equity Transfer Agreement and therefore has a material interest in the Proposed Acquisition, Huijin, its associates and parties acting in concert with Huijin are required to abstain from voting on the resolutions in relation to the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association).

(L) **Application for the Whitewash Waiver**

Under Rule 26 of the Takeovers Code, the acquisition of voting rights from less than 30% to 30% or more will trigger an obligation on Huijin to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by Huijin, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM and the Shareholders' Class Meetings.

Huijin has applied to the Executive, and the Executive has agreed, subject to, among others, the approval of the Independent Shareholders at the EGM and the Shareholders' Class Meetings, to grant the Whitewash Waiver. **If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of Huijin and parties acting in concert with it will exceed 50% of the then registered capital of the Company as enlarged by the proposed issue of the Consideration Shares. Huijin may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.**

As at the Latest Practicable Date, other than the 28.57% interest in the equity interest of the Company controlled by Huijin and parties acting in concert with it and the transactions contemplated under the Equity Transfer Agreement and as disclosed in this circular, neither Huijin nor parties acting in concert with it:

(i). holds, owns, controls or directs any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company;

(ii). has secured an irrevocable commitment to vote in favour of or against the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and/or the Whitewash Waiver;

(iii). has any arrangement (whether by way of option, indemnity or otherwise) or contracts in relation to the shares of the Company or Huijin which might be material to the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and/or the Whitewash Waiver;

(iv). has any agreement or arrangement to which Huijin or parties acting in concert with it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and/or the Whitewash Waiver; or (v). has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

Save for the entering into of the Equity Transfer Agreement and as disclosed in this circular, neither Huijin nor any parties acting in concert with it has acquired any voting rights of the Company or has dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company in the six-month period prior to and including 4 November 2016, being the date on which the Company first made an announcement in respect of the Proposed Acquisition and up to the Latest Practicable Date. Huijin and parties acting in concert with it will not acquire or dispose of any voting rights of the Company after the Latest Practicable Date until the completion of the Proposed Acquisition.

The Company has no outstanding warrants, options or securities convertible into shares of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, the Company does not believe that the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) does not comply with other applicable rules and regulations (including the Listing Rules).

(M) **Independent Board Committee and Independent Financial Adviser**

The Independent Board Committee (comprising Mr. David Bonderman, Mr. Liu Haifeng David, Mr. Shi Jun, Mr. Cha Mou Daid Johnson, Mr. Edwin Roca Lim, Mr. Liu Li, Mr. Siu Wai Keung and Mr. Ben Shenglin) has been established to advise the Independent Shareholders in connection with the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver. Somerley has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver.

**The obtaining of the Whitewash Waiver is one of the conditions precedent to the completion of the Proposed Acquisition. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained by Huijin. In addition, entities which will become substantial shareholders (as defined in the SFO) of the corporations licensed by the SFC within the Group and the CISC Group as result of the Proposed Acquisition are subject to the prior approval by the SFC pursuant to the Section 132 of the SFO (the "Approval"). The Company undertakes to the Shareholders that no completion of the Proposed Acquisition shall take place until the Approval and all applicable regulatory approvals required in connection with the Proposed Acquisition are**

**obtained. The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) does not comply with other applicable rules and regulations (including the Listing Rules).**

**PART B — PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

Upon completion of the Proposed Acquisition, the registered capital of the Company will be increased from RMB2,306,669,000 to RMB3,985,130,809. Accordingly, the Board has resolved to revise the Articles of Association to reflect such change, subject to approval of the Independent Shareholders.

Details of the amendments are set out as below:

**Original Articles:**

**Article 5** The Company's registered capital is RMB2,306,669,000.

**Article 19** The total number of shares of the Company is 2,306,669,000 shares. The structure of the share capital of the Company is: 2,306,669,000 shares of ordinary shares including 786,491,631 shares held by holders of domestic shares, representing 34.10% of the total number of ordinary shares that may be issued by the Company, and 1,520,177,369 shares of overseas listed foreign shares, representing 65.90% of the total number of ordinary shares that may be issued by the Company.

**Modified Articles:**

**Article 5** The Company's registered capital is RMB3,985,130,809.

**Article 19** The total number of shares of the Company is 3,985,130,809 shares. The structure of the share capital of the Company is: 3,985,130,809 shares of ordinary shares including 2,464,953,440 shares held by holders of domestic shares, representing 61.85% of the total number of ordinary shares that may be issued by the Company, and 1,520,177,369 shares of overseas listed foreign shares, representing 38.15% of the total number of ordinary shares that may be issued by the Company.

**PART C - PROPOSED INCREASE OF THE ISSUE SIZE OF THE DEBT FINANCING INSTRUMENTS**

The AGM considered and approved the authorization of the issue of the Debt Financing Instruments. The issue size of the Debt Financing Instruments (excluding the aggregate outstanding amount of any debt financing instrument issued prior to the AGM) shall not exceed RMB20 billion in aggregate (calculated based on the aggregate outstanding amount of the Debt Financing Instruments) as approved at the AGM. For details of the authorization on the Debt Financing Instruments, please refer to the circular of the Company dated 22 April 2016.

In view of the significant increase of the Company's net assets and the enlarged business scale following the completion of the Proposed Acquisition, it is expected that the capital needs of the

Company will be increased. The new regulatory requirements, as well as anticipated changes and emergence of new products and demands in future market, will further increase the Company's needs for capital. Therefore, it is expected that the authorized issue size of the Debt Financing Instruments of RMB20 billion will no longer satisfy the Company's capital needs. Accordingly the Board has resolved to increase the issue size of the Debt Financing Instruments to RMB50 billion (calculated based on the aggregate outstanding balance of the Debt Financing Instruments).

Saved for the increase in the issue size, other arrangements relating to the issue of the Debt Financing Instruments approved at the AGM remain unchanged.

**PART D — INDEPENDENT SHAREHOLDERS' APPROVAL**

In accordance with relevant requirements of the Listing Rules, the Takeovers Code, the Articles of Association and applicable PRC laws, the Independent Shareholders' approvals at the EGM and the Shareholders' Class Meetings are required in relation to the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver.

**PART E — BOND ISSUES OF CICC AND CISC**

On 1 December 2016, the Company obtained an approval from Shanghai Stock Exchange for the issue of the subordinated bonds with a principal amount not exceeding RMB4 billion. It is expected that the Company will issue the subordinated bonds with a principal amount of RMB2 billion to RMB4 billion by the end of 2016. As at the Latest Practicable Date, no subordinated bonds have been issued.

On 14 November 2016, the Company submitted application to the Shanghai Stock Exchange for the issue of corporate bonds with a principal amount not exceeding RMB8 billion. Subject to the review and approval of the Shanghai Stock Exchange, the Company plans to issue the corporate bonds by the end of 2016. As at the Latest Practicable Date, no corporate bonds have been issued pursuant to such application.

On 23 October 2016, CICC Futures Co., Ltd., a subsidiary of the Company, submitted application to the Shanghai Stock Exchange for non-public issuance of subordinated bonds of RMB100 million. Subject to the review and approved of the Shanghai Stock Exchange, CICC Futures Co., Ltd. plans to issue the subordinated bonds by the end of 2016. As at the Latest Practicable Date, no subordinated bonds have been issued pursuant to such application.

On 9 November 2016, CISC submitted application to the Shanghai Stock Exchange for the non-public issuance of subordinated bonds of RMB5 billion. Subject to the review and approval of the Shanghai Stock Exchange, CISC plans to issue the subordinated bonds by the end of 2016. As at the Latest Practicable Date, no subordinated bonds have been issued pursuant to such application.

**PART F — OTHERS**

**(A) THE EXCHANGE RATE AND CONVERSIONS**

Unless otherwise provided, amounts denominated in RMB/HK$ have been converted, for the purpose of illustration only, into HK$/RMB in this circular at the exchange rate of HK$1: RMB0.86122, being the average median exchange rate announced by China Foreign Exchange Trading System (中國外匯交易中心) for the 90 trading days immediately before the date of the Announcement.

## (B) EGM AND SHAREHOLDERS' CLASS MEETINGS

A notice convening the EGM of the Company to be held at Conference Room 2601, 26th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC on 29 December 2016 for the purpose of considering and, if thought fit, approving the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association), the Whitewash Waiver and the proposed increase of the issue size of the Debt Financing Instruments was depatched to the Shareholders on 14 November 2016 in accordance with the Articles of Association.

A notice convening the Domestic Shareholders' Class Meeting to be held at Conference Room 2601, 26th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC on 29 December 2016 for the purpose of considering and, if thought fit, approving, the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver was depatched to the Shareholders on 14 November 2016 in accordance with the Articles of Association.

A notice convening the H Shares Shareholders' Class Meeting to be held at Conference Room 2601, 26th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC on 29 December 2016 for the purpose of considering and, if thought fit, approving the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver was depatched to the Shareholders on 14 November 2016 in auordance with the Articles of Association.

The forms of proxy for use for the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting were despatched to the Shareholders on 14 November 2016. Whether or not you intend to attend the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting (as applicable), you are requested to complete the accompanying forms of proxy (as applicable) in accordance with the instructions printed thereon and return the same to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) and the registered office of the Company at 27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, the PRC (for holders of Domestic Shares) not less than 24 hours before the time appointed for the holding of the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting or any adjournment thereof. Completion and return of the proxy forms shall not preclude you from attending, and voting in person at the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting (as applicable) or any adjournment thereof if you so desire and, in such event, the instrument appointing a proxy will be deemed to be revoked.

In order to determine the list of shareholders who will be entitled to attend and vote at the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting (as applicable), the register of members of the Company will be closed for registration of transfer of Shares from Tuesday, 29 November 2016 to Thursday, 29 December 2016 (both days inclusive) and during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on Tuesday, 29 November 2016 shall be entitled to attend and vote at the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting (as applicable). In order for the Shareholders to be qualified for attending and voting at the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting (as applicable), all transfer documents, accompanied by the relevant Share certificates, should be lodged for registration with Computershare Hong Kong Investor Services Limited (for holders of H Shares) at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, or the registered office of the Company at 27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, the PRC (for holders of Domestic Shares) not later than 4:30 p.m. on Monday, 28 November 2016.

**(C) VOTING AT THE EGM AND THE SHAREHOLDERS' CLASS MEETINGS**

Huijin and parties acting in concert with it are required to abstain from voting on the relevant resolutions to be proposed at the EGM and the Shareholders' Class Meetings to approve the Proposed Acquisition (including the proposed issue of Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver.

Voting on the resolutions at the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting will be taken by poll.

**(D) RECOMMENDATIONS**

The Directors (excluding those Directors in the Independent Board Committee, who will give their opinion based on the recommendations of the Independent Financial Adviser) are of the view that the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver are on normal commercial terms which are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding those Directors in the Independent Board Committee, who will give their opinion based on the recommendations of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of relevant resolutions to be proposed at the EGM, the Domestic Shareholders' Class Meeting and the H Shares Shareholders' Class Meeting (as applicable).

The Directors consider that the proposed increasing of the issue size of the Debt Financing Instruments is in the interests of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

**(E) OTHER INFORMATION**

Your attention is drawn to other sections of and appendices to this circular.

Yours faithfully

By order of the Board
**China International Capital Corporation Limited**
*Secretary to the Board*
**Wu Bo**

## POST-INTEGRATION SYNERGIES OVERVIEW

The Directors of the Company believe that the Enlarged Group will benefit from the highly complementary businesses of the Company and CISC. Through over 20 years of development and growth, the Company has established a proven track record of serving large- and medium-size corporate and institutional clients, a leading position in investment banking and cross-border capital market transactions among PRC securities firms and a top-tier wealth management platform to high-net-worth individual clients. CISC was formed out of the securities-related assets from China Southern Securities Co., Ltd., one of the first PRC securities service providers. Leveraging its accumulated industry knowledge and experiences, CISC maintains an extensive branch network, a large, loyal and high-quality client base and a well-established position in the retail securities brokerage sector in the PRC.

After the Proposed Acquisition, the Enlarged Group will implement business integration using a prudent and practical manner in line with industry trends and regulatory requirements. The business structure of the Enlarged Group may become more balanced across different financial products, business activities and client segments. The respective strengths of the Company and CISC are expected to be combined to raise customer satisfaction, achieve business expansion and improve capital utilization.

Potential synergies upon completion of the integration primarily include the following:

### Wealth Management

The Company has a leading track record in serving high-net-worth individual clients. The Proposed Acquisition will allow the Enlarged Group to integrate the Group's brand name, leading research and investment banking capabilities, advice-driven service model, and ability to provide sophisticated and customized products and solutions and ability to generate diversified sources of revenue from wealth management into CISC's nationwide branch network and large brokerage customer base, which the Directors of the Company believe will develop an industry-leading wealth management platform.

Leveraging the Company's advice-driven service model and ability to provide a wide range of wealth management products and services, the Enlarged Group will be able to conduct in-depth analysis and explore diversified needs of the existing customers of CISC. The Enlarged Group will seek to increase the average AUM per client and the return on assets managed and grow income from the wealth management business by adopting the following measures:

- Providing clients with a comprehensive package of customized wealth management products and services;

- Leveraging the Company's leading investment banking business, outstanding asset management and private equity businesses and highly regarded research services to further increase cross-selling and up-selling of existing customers;

- Utilizing the enlarged size of capital and optimizing the balance sheet management to provide quality, flexible capital-based intermediary services; and

- Leveraging the Company's international reach and leading cross-border execution capabilities to provide existing customers of CISC with more options of cross-border products and services.

Capitalizing on the premier wealth management brand name, strengthened service capability as well as the expanded channels and client resources, the Enlarged Group will be well positioned to significantly grow its wealth management client base, particularly its high net-worth clients.

**Investment Banking**

The Enlarged Group's investment banking business will achieve greater geographic coverage and market penetration by taking advantage of CISC's extensive branch network, deep local roots and a sizable team of qualified professionals. The leading position of CICC's investment banking business in terms of brand name, execution and services and innovation capabilities will enable the Enlarged Group to further explore needs of the existing customers of CISC and provide them with a more thorough package of services. Following the Proposed Acquisition, the Enlarged Group's investment banking business may also benefit from significantly expanded distribution capabilities and cross-selling opportunities that come with a large branch network and wealth management customer base.

**Capital Utilization**

Securities firms in the PRC are subject to stringent regulatory requirements over capital adequacy and leverage ratios. The Group has effectively replenished its capital through the Company's global offering and listing on the Stock Exchange in 2015 but still face pressure in this regard. The Enlarged Group will achieve a greater size of capital upon the integration, which will allow it to further leverage the Company's ability to offer various capital-based products and grow the Enlarged Group's capital-based business. The extensive experiences and first-class teams of the Company will also help the Enlarged Group to implement effective balance sheet management and improve its capital and operational efficiency.

## FUTURE PLANS OVERVIEW

China has entered into a new development phase of economic transformation and upgrading and has ushered in a new era of deepening reform in all respects. Development of larger-scale leading securities firms will contribute to the establishment of multi-layer capital markets and transformation of economic structure of the PRC. Leveraging on the comparative advantages of each entity, the Proposed Acquisition will enhance the overall competitiveness of wealth management business of the Enlarged Group and further promote the development of other businesses, including investment banking business. Benefiting from the synergy of the Proposed Acquisition, the Enlarged Group will have a more balanced business structure and a significantly reinforced market position, accelerating the realization of the objective of becoming a world-class investment bank with global influence.

**Management Arrangement**

After completion of the Proposed Acquisition, CISC will become and operate as a wholly-owned subsidiary of the Company. The Enlarged Group will adhere to the international best practice in terms of corporate governance and will continuously optimize the corporate governance in line with applicable regulatory requirements, with necessary adjustments and refinement on internal control, compliance, risk management, finance and information technology functions of both entities.

It is expected that the management of both entities will remain stable after the completion of the Proposed Acquisition. The Enlarged Group will be led by the Board and chief executive officer of the Company, and the management of both entities will carry out their respective duties based on full and in-depth communication and cooperation with each other. To promote smooth and effective business integration and development, an integration committee is expected to be established to coordinate and facilitate the integration.

**Business Integration Arrangement**

Through business integration, the Company will focus on operating institution-oriented businesses while CISC will focus on operating individual-oriented wealth management and retail brokerage businesses. After an appropriate transitional period, the two entities will both use the brand of CICC in an aligned manner. The business integration plan will be implemented in line with the following principles:

- maintaining the stability of the existing business operation and staff of both entities;
- adopting market-based standard practice on matters such as corporate governance, employee recruitment and assessment as well as employee incentives aimed at achieving stronger performance and promoting the overall marketization of CISC; and
- focusing on the development strategies of creating incremental revenue through leveraging on the advantages of both entities, with a view to enhancing business transformation and development of the Enlarged Group.

The detailed integration arrangements, as currently contemplated, are as follows:

a) ***Wealth Management and Brokerage Business***

Through an appropriate transition process, it is intended that the wealth management business of the Company will be merged with the brokerage operation of CISC within the latter's corporate entity. It is envisaged that integration efforts will center around upgrading and transforming CISC's brokerage operation by adopting market-based evaluation and incentive systems, leveraging the Company's product and service expertise and implementing a global wealth management IT platform, among others. The integration process will be conducted in phases through pilot programs involving a selected number of branch operations. In addition, the asset management and research teams of CISC are expected to be re-trained and re-focused to improve its in-house ability to generate the financial products and research support needed in catering to the growing demand of wealth management clients. It is also planned that both entities will work together to improve the quality and efficiency of mass market services through personnel training, IT upgrading and concerted efforts to develop an enhanced on-line platform.

b) ***Investment Banking***

Through an appropriate transition process, the investment banking practice of CISC, including fixed income underwriting, is intended to be merged into the Group's investment banking operation, with a focus on small-to-medium-sized enterprises and growth companies. It is planned that CISC's current evaluation and incentive systems will be amended both to foster meritocracy and encourage prudent and responsible professional conduct. Focus will also be placed on staff training, quality control and supervision of business development.

c) ***Others***

The fixed income investment, equity trading, institutional sales and trading and private equity business of CISC are relatively small. It is planned that these will be integrated with relevant business lines of the Company in manners consistent with the principles laid out above.

d) ***Middle and Back Offices***

As CISC will become and operate as a subsidiary of the Company upon the completion of the Proposed Acquisition, the middle and back offices of both entities are expected to maintain their existing functions and operate relatively independently from each other, with the aim to provide support to their respective business operations. Relevant departments of the Company will provide full support to and cooperate with CISC in areas such as productivity enhancement, standard and procedural improvements, employee training and team building as well as resource sharing and cost optimization. Closer collaboration is expected in functions relating to corporate governance, balance sheet management, risk management, compliance and IT.

**China International Capital Corporation Limited**
**中國國際金融股份有限公司**
*(A joint stock limited company incorporated in the People's Republic of China)*
**(Stock Code: 3908)**

5 December 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION**
**AND**
**APPLICATION FOR THE WHITEWASH WAIVER**

We refer to the circular issued by the Company to the Shareholders dated 5 December 2016 (the "**Circular**") which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver (details of which are set out in the "Letter from the Board" in the Circular) and to advise the Independent Shareholders in respect of the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver. Somerley have been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the "Letter from the Board" and the "Letter from the Independent Financial Adviser" as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in their letter of advice, we consider that the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions approving the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver at the EGM and the Shareholders' Class Meetings .

Yours faithfully
For and on behalf of the Independent Board Committee of
**China International Capital Corporation Limited**

**Mr. David Bonderman**
*Non-executive Director*

**Mr. Liu Haifeng David**
*Non-executive Director*

**Mr. Shi Jun**
*Non-executive Director*

**Mr. Cha Mou Daid Johnson**
*Non-executive Director*

**Mr. Edwin Roca Lim**
*Independent Non-executive Director*

**Mr. Liu Li**
*Independent Non-executive Director*

**Mr. Siu Wai Keung**
*Independent Non-executive Director*

**Mr. Ben Shengling**
*Independent Non-executive Director*

*Set out below is the text of a letter received from Somerley, the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver for the purpose of inclusion in this circular.*

**SOMERLEY CAPITAL LIMITED**
20th Floor
China Building
29 Queen's Road Central
Hong Kong

5 December 2016

*To: The Independent Board Committee and Independent Shareholders of China International Capital Corporation Limited*

Dear Sirs,

## (1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN CHINA INVESTMENT SECURITIES COMPANY LIMITED AND THE PROPOSED ISSUE OF CONSIDERATION SHARES AND (2) APPLICATION FOR THE WHITEWASH WAIVER;

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisition and the Whitewash Waiver. Details of the Proposed Acquisition and the Whitewash Waiver are contained in the circular issued by the Company to the Shareholders dated 5 December 2016 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 4 November 2016, the Company and Huijin, a substantial shareholder of the Company, entered into the Equity Transfer Agreement, pursuant to which, the Company has agreed to acquire, and Huijin has agreed to sell, 100% of the equity interest of China Investment Securities Company Limited ("**CISC**"), subject to satisfaction of the conditions precedent stipulated under the Equity Transfer Agreement. The consideration for the Proposed Acquisition is RMB16,700.695 million (equivalent to approximately HK$19,391.903 million) (the "**Consideration**") which will be satisfied by the issue of the Consideration Shares at approximately HK$11.55 (the "**Issue Price**") each to Huijin.

As at the Latest Practicable Date, Huijin and its concert parties are, directly and indirectly, interested in 28.57% of the equity interest of the Company. Upon completion of the Proposed

Acquisition, Huijin and parties acting in concert with it will be, directly and indirectly, interested in 58.65% of the equity interest of the Company. Under Rule 26 of the Takeovers Code, the acquisition of voting rights from less than 30% to 30% or more will trigger an obligation on Huijin to make a general offer for all the securities of the Company other than those already owned or agreed to be acquired by Huijin, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders at the EGM and the Shareholders' Class Meetings. Huijin has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be subject to, among other things, approval by the Independent Shareholders at the EGM and the Shareholders' Class Meetings by way of poll. If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of Huijin and parties acting in concert with it will exceed 50% of the then registered capital of the Company as enlarged by the proposed issue of the Consideration Shares (details of which are set out in the Circular). Huijin may further increase its shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

The Proposed Acquisition constitutes a very substantial acquisition for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The voting in respect of, among others, the Proposed Acquisition and the Whitewash Waiver at the EGM and the Shareholders' Class Meetings will be conducted by way of a poll.

The Independent Board Committee comprising Mr. David Bonderman, Mr. Liu Haifeng David, Mr. Shi Jun and Mr. Cha Mou Daid Johnson, being the non-executive Directors and Mr. Edwin Roca Lim, Mr. Liu Li, Mr. Siu Wai Keung and Mr. Ben Shenglin, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of, among others, the Proposed Acquisition and the Whitewash Waiver, and to make a recommendation to the Independent Shareholders on how to vote on the proposed resolutions. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard. Our appointment has been approved by the Independent Board Committee.

In 2015, Somerley Capital Limited acted as the financial adviser to China Everbright Limited ("**China Everbright**") (stock code: 165) as regards its proposed continuing connected transactions (the "**CE Transactions**"), as set out in the announcement of China Everbright published on 14 May 2015. Pursuant to the most recently available disclosure of interest on the Stock Exchange, China Everbright is held as to approximately 49.7% by China Everbright Group Ltd, which in turn is owned as to approximately 55.7% by Huijin. Under the past engagement, Somerley Capital Limited received normal professional fees from China Everbright. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between Somerley Capital Limited on one hand and the Company, Hujin, their respective associates, close associates or core connected persons or any party acting, or presumed to be acting, in concert with any of them on the other hand that could reasonably be regarded as a hindrance to our independence to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the Proposed Acquisition and the Whitewash Waiver.

We are not associated with the Company, Hujin, their respective associates, close associates or core connected persons or any party acting, or presumed to be acting, in concert with any of them, and accordingly, are considered eligible to give independent advice and recommendation on the Proposed Acquisition and the Whitewash Waiver. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Hujin, their respective associates, close associates or core connected persons or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion and recommendation, we have reviewed, among other things, the Equity Transfer Agreement, the interim report of the Company for the six months ended 30 June 2016, the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**"), the accountants' reports of the CISC Group for the 6 months ended 30 June 2016 and the three years ended 31 December 2013, 2014 and 2015, the unaudited pro forma financial information of the Enlarged Group (the "**Pro Forma Financial Information**"), the valuation report on the CISC Group as at 30 June 2016 prepared by the PRC Valuer (the "**Valuation Report**"), the PRC legal opinion on the Proposed Acquisition (the "**PRC Legal Opinion**") prepared by Haiwen & Partners (the "**PRC Legal Adviser**") and the Announcement. We have also discussed with the management of the Group and the CISC Group regarding the business and future prospects of the Enlarged Group.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and the CISC Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or the CISC Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon them in formulating our opinion, are true, accurate and complete in all material respects and no material information has been withheld from us as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) to the information or statements contained in the Circular including this letter as soon as practicable in accordance with Rule 9.1 of the Takeovers Code.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

### 1. Background and financial information of the Group

#### (a) *Business of the Group*

The principal businesses of the Company are investment banking, equities, fixed income, commodities and currencies ("**FICC**"), wealth management, investment management and relevant financial services.

(b) ***Financial performance of the Group***

Set out below is a summary of the financial results of the Group for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016.

**TABLE 1: SUMMARY OF RESULTS OF OPERATIONS OF THE GROUP**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | (RMB million) | | |
| **Total revenue and other income** | | | | | |
| - Investment banking | 1,016.0 | 1,682.9 | 2,331.7 | 997.5 | 730.1 |
| - Equities | 1,207.3 | 1,663.0 | 2,638.7 | 1,485.3 | 931.4 |
| - FICC | 700.7 | 1,295.9 | 1,607.0 | 995.2 | 594.5 |
| - Wealth management | 607.7 | 841.3 | 1,696.8 | 899.9 | 522.3 |
| - Investment management | 445.2 | 610.8 | 1,083.1 | 448.7 | 333.3 |
| - Others | 87.9 | 61.9 | 149.4 | 54.4 | 109.2 |
| | 4,064.8 | 6,155.8 | 9,506.7 | 4,881.0 | 3,220.8 |
| Total expenses | (3,612.2) | (4,717.7) | (6,989.8) | (3,404.8) | (2,507.2) |
| **Operating profit** | 452.6 | 1,438.1 | 2,516.9 | 1,476.3 | 713.6 |
| Share of profits of associates and joint ventures | 48.9 | 67.8 | 103.7 | 36.2 | 25.7 |
| **Profit before income tax** | 501.5 | 1,505.9 | 2,620.6 | 1,512.4 | 739.4 |
| Income tax expense | (131.4) | (387.4) | (667.9) | (376.3) | (164.5) |
| **Profit for the year/period** | 370.1 | 1,118.5 | 1,952.6 | 1,136.1 | 574.9 |
| Attributable to: | | | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | 370.1 | 1,118.5 | 1,952.6 | 1,136.1 | 574.9 |

*Note:* The figures in the table above are approximate figures which have been rounded to the first decimal place.

In 2014, total revenue and other income increased by 51.4% year-on-year attributable to the overall growth of the Group's businesses and the strong performance of domestic securities markets in 2014, and profit for the year increased significantly from RMB370.1 million in 2013 to RMB1,118.5 million in 2014 as the Group's effective cost control measures resulted in a lower increase in total expenses than the increase in the total revenue and other income in 2014.

In 2015, benefiting from the active capital market environment, the Company's overall operations were in good condition and its revenue and net profit both made a record high. As the market trading volume rose to an unprecedented level and exceeded that of 2014, total revenue and other income increased by 54.4% year-on-year and profit for the year increased to RMB1,952.6 million in 2015.

During the first half of 2016, the Group's operating results weakened as result of the slowdown in economic growth and downturn in the A-share market, as its total revenue and other income and profit for the period decreased by 34.0% and 49.4% period-on-period respectively as the segment results of each of the Group's five principal businesses recorded a decline.

(c) ***Financial position of the Group***

Set out below is a summary of the financial position of the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016.

**TABLE 2: FINANCIAL POSITION OF THE GROUP**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (RMB million) | | | |
| Non-current assets | 1,770.7 | 1,959.1 | 2,459.6 | 2,645.2 |
| Current assets | 31,063.9 | 50,741.0 | 91,649.1 | 104,927.2 |
| **Total assets** | 32,834.5 | 52,700.1 | 94,108.8 | 107,572.3 |
| Non-current liabilities | 4,248.4 | 4,320.7 | 8,411.1 | 5,871.4 |
| Current liabilities | 21,719.4 | 40,387.1 | 69,255.6 | 84,633.1 |
| **Total liabilities** | 25,967.8 | 44,707.9 | 77,666.8 | 90,504.5 |
| Equity attributable to shareholders/equity holders | 6,866.8 | 7,992.2 | 15,442.0 | 16,037.9 |
| Other equity instruments | — | — | 1,000 | 1,000.0 |
| Non-controlling interests | — | — | — | 30.0 |
| **Total equity** | 6,866.8 | 7,992.2 | 16,442.0 | 17,067.9 |

*Note:* The figures in the table above are approximate figures which have been rounded to the first decimal place.

Total assets were mainly made up of current assets including:

(i) financial assets at fair value through profit or loss of RMB12,951.7 million, RMB21,653.7 million, RMB45,459.3 million and RMB57,034.6 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, which increased during the period under review attributable to the increased position of reference stocks underlying total return swap transactions with clients in 2014, and the increased positions of debt securities and investments in money market funds in both 2015 and 2016;

(ii) cash held on behalf of brokerage clients of RMB5,235.5 million, RMB11,084.6 million, RMB24,301.4 million and RMB20,523.9 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, the balance of which varied at each of the period ends corresponding to the trading activities of brokerage clients; and

(iii) cash and bank balances of RMB3,096.1 million, RMB3,418.3 million, RMB8,434.1 million and RMB12,186.8 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, which increased substantially in 2015 due to funds raised from the Company's listing on the Stock Exchange, and further increased in 2016 attributable to the USD500 million medium-term notes issued by an indirect wholly-owned subsidiary of the Company.

Total liabilities mainly included:

(i) accounts payable to brokerage clients of RMB5,706.2 million, RMB15,054.3 million, RMB25,218.1 million and RMB21,439.4 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, the balance of which varied at each of the period ends corresponding to the market trading volume and market volatility;

(ii) financial assets sold under repurchase agreements ("REPOs") of RMB7,275.8 million, RMB8,350.5 million, RMB14,013.7 million and RMB15,920.0 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, which increased during the period under review attributable to the increase in short-term financing for proprietary business to enhance return on proprietary investments;

(iii) financial liabilities at fair value through profit or loss of RMB788.3 million, RMB7,525.9 million, RMB5,584.3 million and RMB9,340.8 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, which increased substantially in 2014 attributable to payables to the counterparties in connection with total return swaps and structured products and trading gains or losses on such businesses; and

(iv) long-term debt securities issued of RMB4,006.0 million, RMB4,009.6 million, RMB6,071.4 million and RMB8,292.6 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively, which increased in 2015 attributable to subordinated bonds with a principal amount of RMB2 billion issued by the Company during the year, and further increased in 2016 attributable to the USD500 million medium-term notes issued by an indirect wholly-owned subsidiary of the Company.

The Group's equity attributable to shareholders/equity holders were RMB6,866.8 million, RMB7,992.2 million, RMB15,442.0 million and RMB16,037.9 million as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively.

2. **Background and financial information of the CISC Group**

(a) ***Business of the CISC Group***

CISC is a securities company incorporated in the PRC in 2005 and is wholly-owned by Huijin as at the Latest Practicable Date. The principal businesses of CISC are brokerage services, investment banking, asset management, proprietary trading and others.

(b) ***Financial performance of the CISC Group***

The accountants' report of the CISC Group is set out in Appendix IV to the Circular. Set out below is a summary of the CISC Group's financial results for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016.

**TABLE 3: SUMMARY OF RESULTS OF OPERATIONS OF THE CISC GROUP**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | (RMB million) | | |
| Total revenue and other income | 3,663.3 | 5,149.5 | 12,481.9 | 7,131.6 | 3,474.9 |
| Total expenses | (2,624.3) | (3,461.5) | (7,597.1) | (3,848.8) | (2,420.3) |
| **Operating profit** | 1,039.0 | 1,687.9 | 4,884.8 | 3,282.8 | 1,054.7 |
| Share of (losses)/profits of associates | (1.0) | (1.3) | 0.8 | (0.5) | (1.6) |
| **Profit before income tax** | 1,038.0 | 1,686.6 | 4,885.6 | 3,282.3 | 1,053.0 |
| Income tax expense | (278.3) | (440.1) | (1,240.2) | (824.3) | (268.1) |
| **Profit for the year/period** | 759.6 | 1,246.5 | 3,645.4 | 2,457.9 | 784.9 |
| Attributable to: | | | | | |
| Owners of CISC | 756.7 | 1,243.9 | 3,639.4 | 2,453.8 | 783.3 |
| Non-controlling interests | 3.0 | 2.6 | 6.0 | 4.2 | 1.6 |

*Note:* The figures in the table above are approximate figures which have been rounded to the first decimal place.

The profit attributable to owners of CISC increased by 64.4% and 192.6% in 2014 and 2015 respectively, primarily due to increases in revenue and other income of the brokerage and asset management segments attributable to the favorable market conditions in the second half of 2014, and increases in revenue and other income of the brokerage, investment banking and proprietary trading segments in 2015. The profit attributable to owners of CISC for the six months ended 30 June 2016 decreased by 68.1% primarily due to a significant decrease in the revenue and other income of the brokerage segment, mainly as a result of the weak performance of the A-share stock market. Set out below is a summary of the CISC Group's segment revenue and other income and profit/(loss) before income tax for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016.

**TABLE 4: SEGMENT RESULTS OF THE CISC GROUP**

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | |
| | Revenue and other income | Profit/(loss) before income tax | Revenue and other income | Profit/(loss) before income tax | Revenue and other income | Profit/(loss) before income tax |
| | (RMB million) | | | | | |
| Brokerage | 3,026.3 | 1,168.9 | 4,375.4 | 1,837.2 | 10,627.9 | 4,926.9 |
| Investment Banking | 141.1 | (50.8) | 173.0 | (49.8) | 583.1 | 198.8 |
| Asset Management | 107.5 | 48.1 | 158.7 | 90.7 | 257.5 | 146.7 |
| Proprietary Trading | 112.1 | 62.5 | 84.0 | 0.7 | 252.4 | 70.7 |
| Others | 276.2 | (190.7) | 358.2 | (192.1) | 760.9 | (457.5) |
| Total | 3,663.3 | 1,038.0 | 5,149.5 | 1,686.6 | 12,481.9 | 4,885.6 |

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | 2015 | | 2016 | |
| | Revenue and other income | Profit/(loss) before income tax | Revenue and other income | Profit/(loss) before income tax |
| | (RMB million) | | | |
| Brokerage | 6,029.0 | 3,063.9 | 2,610.2 | 940.3 |
| Investment Banking | 393.5 | 170.7 | 359.6 | 183.0 |
| Asset Management | 162.9 | 92.1 | 141.0 | 69.0 |
| Proprietary Trading | 102.8 | 20.5 | 53.8 | (92.7) |
| Others | 443.4 | (64.9) | 310.3 | (46.5) |
| Total | 7,131.6 | 3,282.3 | 3,474.9 | 1,053.0 |

*Note:* The figures in the table above are approximate figures which have been rounded to the first decimal place.

(1) *Brokerage*

The revenue of the CISC Group was mainly derived from its brokerage business, which contributed over 80% of the CISC Group's total revenue for the three years ended 31 December 2013, 2014 and 2015, and around 75% for the six months ended 30 June 2016. Segment revenue and other income from the brokerage business consist primarily of (i) fee and commission income on brokerage services for clients, including trading of stocks, funds and bonds on behalf of its clients and providing futures brokerage services and products in the PRC, and (ii) interest income on capital-based intermediary services, including margin financing and securities lending, securities-backed lending and stock repurchases. This segment has been profitable during the review period.

Segment revenue and other income of the brokerage business increased by 44.6% and 142.9% year-on-year in 2014 and 2015 respectively, primarily due to (i) increases in brokerage fee and commission income from RMB2,137.3 million in 2013 to RMB2,886.4 million in 2014 and RMB7,045.2 million in 2015, due to significant increases in the brokerage trading volume driven by the strong performance of the A-share stock market; and (ii) increases in interest income of capital-based intermediary services from RMB874.9 million in 2013 to RMB1,464.4 million in 2014 and RMB3,569.1 million in 2015 following the expansion of such businesses. As a result, profit before income tax from the brokerage business increased by 57.2% and 168.2% year-on-year in 2014 and 2015 respectively.

For the six months ended 30 June 2016, segment revenue and other income of the brokerage business decreased by 56.7% period-on-period, primarily due to (i) a decrease in brokerage fee and commission income from RMB4,149.7 million in the first half of 2015 to RMB1,406.3 million in the same period of 2016, due to decreased brokerage trading volume as a result of the volatile and less favorable A-share stock market; (ii) a decrease in the average securities brokerage commission rate; and (iii) a decreased scale of margin financing and securities lending business due to clients' reduced demand for capital-based intermediary services as demonstrated by the decrease in interest income of capital-based intermediary services from RMB1,871.9 million in the first half of 2015 to RMB1,199.1 million in the same period of 2016. As a result, profit before income tax from the brokerage business decreased by 69.3% period-on-period in the first half of 2016.

(2) *Investment banking*

Segment revenue and other income from the investment banking business, which consist primarily of fee and commission income, including underwriting and sponsoring fees as well as financial advisory fees, represented 3.9%, 3.4%, 4.7% and 10.3% of the CISC Group's total revenue and other income respectively for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. This segment was loss making in 2013 and 2014 and turned into profitable in 2015.

Segment revenue and other income of the investment banking business increased by 22.6% year-on-year in 2014 primarily due to increases in revenue and other income from equity underwriting and debt financing services by 0.4% year-on-year and revenue and other income from financial advisory services by 142.2% year-on-year, while the increases in staff costs and other operating expenses were in line with the revenue growth in 2014, resulting in a stable loss before income tax compared to 2013.

Segment revenue further increased by 237.0% in 2015 due to (i) the significant increase in the number and transaction value of equity financing transactions underwritten by CISC, giving rise to an increase in revenue and other income from equity underwriting and debt financing services by 228.8% year-on-year; and (ii) an increase in the number of transactions on which CISC acted as a financial adviser contributing an increase in revenue and other income from financial advisory services by 255.0% year-on-year, which resulted in the profit before income tax of RMB198.8 million in 2015 compared to the loss before income tax of RMB49.8 million in 2014.

For the six months ended 30 June 2016, segment revenue and other income of the investment banking business decreased by 8.6% period-on-period, primarily due to a decrease in the number and transaction value of equity financing transactions underwritten by CISC, partially offset by an increase in the number and amount of debt securities underwritten by CISC. However, profit before income tax from the investment banking business increased by 7.2% period-on-period in the first half of 2016 due to decreases in staff costs.

(3) *Asset Management*

Segment revenue and other income from the asset management business, which consist primarily of (i) fee and commission income from providing securities-firm asset management services and (ii) investment income, represented 2.9%, 3.1%, 2.1% and 4.1% of the CISC Group's total revenue and other income respectively for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. This segment has been profitable during the review period.

Segment revenue and other income of the asset management business increased by 47.6% and 62.2% year-on-year in 2014 and 2015 respectively, primarily due to the assets under management ("**AUM**") growth of collective and specialized asset management schemes. As a result, profit before income tax from the asset management business increased by 88.6% and 61.8% year-on-year in 2014 and 2015 respectively.

For the six months ended 30 June 2016, segment revenue and other income of the asset management business decreased by 13.4% period-on-period, primarily due to losses incurred in connection with a collective asset management scheme of CISC affected by unfavorable market conditions in the first half of 2016. As a result, profit before income tax from the asset management business decreased by 25.1% period-on-period in the first half of 2016.

(4) *Proprietary Trading*

Segment revenue and other income from the proprietary trading business, which consist primarily of investment income on CISC's proprietary trading and investment activities, represented 3.1%, 1.6%, 2.0% and 1.5% of the CISC Group's total revenue and other income respectively for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. This segment was profitable in 2013-2015 and became loss making in the first half of 2016.

Segment revenue and other income of the proprietary trading business decreased by 25.0% year-on-year in 2014 primarily due to (i) a decrease in the investment income associated with stock index futures hedging activities and (ii) a decrease in interest income attributable to the decreased use of resale transactions, while profit before income tax decreased substantially by 98.8% following an increase in segment expenses of 68.0% due to an increased interest expenses of repurchase transactions.

Segment revenue and other income rebounded and tripled in 2015 due to (i) an increase in investment income attributable to increased fixed-income securities related transactions and (ii) interest income attributable to increased use of resale transactions, which resulted in the increase in profit before income tax from RMB0.7 million in 2014 to RMB70.7 million in 2015.

For the six months ended 30 June 2016, segment revenue and other income of the proprietary business decreased by 47.7% period-on-period, primarily due to a decrease in investment income attributable to less favorable A-share stock market conditions and volatile debt securities market, which resulted in the loss before income tax of RMB92.7 million for the six months ended 30 June 2016 as compared to the profit before income tax of RMB20.5 million for the same period of 2015.

(5) *Others*

Segment revenue and other income from other businesses consist primarily of revenue and income from institutional sales, over-the-counter ("**OTC**") market-making, private equity, alternative investment and overseas business. This segment has been loss-making during the review period.

Segment revenue and other income of other businesses increased by 29.7% year-on-year in 2014 primarily due to increases in commission income from private equity management and revenue from overseas business, while segment expenses also increased by 17.8% year-on-year, resulting in a stable loss before income tax compared to 2013. Segment revenue and other income further increased by 112.4% in 2015 primarily due to an increased OTC market-making activities and other transactions attributable to the strong performance of the A-share stock market. However, loss before income tax increased by 138.2% year-on-year in 2015 primarily due to substantial increases in staff salaries and bonus and other operating expenses.

For the six months ended 30 June 2016, segment revenue and other income of other businesses decreased by 30.0% period-on-period, primarily due to the weak market conditions. As a result, loss before income tax from other business also decreased by 28.3% period-on-period in the first half of 2016.

(c) ***Financial position of the CISC Group***

Set out in below is a summary of the consolidated statements of financial position of the CISC Group as at 31 December 2013, 2014 and 2015, and 30 June 2016.

**TABLE 5: FINANCIAL POSITION OF THE CISC GROUP**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (RMB millions) | | | |
| **Non-current assets** | | | | |
| Available-for-sale financial assets | 185.5 | 176.1 | 3,042.6 | 2,992.1 |
| Refundable deposits | 616.8 | 658.2 | 298.3 | 163.2 |
| Financial assets held under resale agreements ("**Reverse REPOs**") | 59.2 | 47.5 | 270.4 | 796.4 |
| Other non-current assets | 1,297.8 | 1,339.7 | 1,562.2 | 1,407.9 |
| | 2,159.2 | 2,221.4 | 5,173.5 | 5,359.6 |
| **Current assets** | | | | |
| Receivable from margin clients | 7,244.5 | 22,265.9 | 25,070.3 | 17,629.0 |
| Financial assets at fair value through profit or loss | 2,217.1 | 2,332.4 | 6,392.0 | 7,989.3 |
| Cash held on behalf of brokerage clients | 15,482.8 | 31,477.4 | 48,184.9 | 40,195.6 |
| Cash and bank balances | 2,609.3 | 5,253.7 | 9,078.4 | 6,201.6 |
| Other current assets | 1,906.9 | 1,962.4 | 2,661.0 | 7,180.2 |
| | 29,460.6 | 63,291.8 | 91,386.5 | 79,195.6 |
| **Current liabilities** | | | | |
| Accounts payable to brokerage clients | 15,552.8 | 31,533.1 | 48,378.9 | 40,353.8 |
| Placements from financial institutions | 2,570.0 | 3,063.1 | 523.6 | 303.4 |
| REPOs | 2,675.1 | 14,402.2 | 11,606.6 | 11,766.9 |
| Long-term debt securities issued due within one year | — | — | 2,737.0 | 2,873.6 |
| Other current liabilities | 1,879.5 | 2,533.4 | 2,891.4 | 5,622.4 |
| | 22,677.4 | 51,531.7 | 66,137.6 | 60,920.2 |
| **Net current assets** | 6,783.2 | 11,760.1 | 25,248.9 | 18,275.4 |
| **Total assets less current liabilities** | 8,942.4 | 13,981.6 | 30,422.4 | 23,635.0 |
| **Non-current liabilities** | | | | |
| Long-term debt securities issued | — | 480.0 | 9,277.4 | 8,492.1 |
| REPOs | — | 3,200.0 | 6,840.0 | — |
| Other non-current liabilities | 38.9 | 95.9 | 238.5 | 319.0 |
| | 38.9 | 3,775.9 | 16,355.9 | 8,811.1 |
| **Net assets** | 8,903.6 | 10,205.7 | 14,066.5 | 14,823.9 |
| **Equity** | | | | |
| Paid-in capital | 5,000.0 | 5,000.0 | 5,000.0 | 5,000.0 |
| Reserves | 2,563.5 | 2,973.8 | 4,493.4 | 4,451.4 |
| Retained profits | 1,264.0 | 2,147.6 | 4,485.1 | 5,268.5 |
| Equity attributable to owners of CISC | 8,827.5 | 10,121.4 | 13,978.5 | 14,719.8 |
| Non-controlling interests | 76.0 | 84.3 | 88.0 | 104.1 |
| **Total equity** | 8,903.6 | 10,205.7 | 14,066.5 | 14,823.9 |

*Note:* The figures in the table above are approximate figures which have been rounded to the first decimal place.

Given the highly liquid nature of the business of CISC, most of its assets and liabilities have been accounted for as current assets and liabilities. The net current assets of the CISC Group remained positive in the period under review, and the equity attributable to owners of CISC increased from RMB8,827.5 million as at 31 December 2013 to RMB14,719.8 million as at 30 June 2016.

(1) *Assets of the CISC Group*

Non-current assets of the CISC Group were mainly made up of:

(i) available-for-sale financial assets — consist primarily of investments in equity securities and bond securities as well as asset management schemes — which increased substantially by RMB2,866.5 million as of 31 December 2015 compared to 2014 primarily due to an investment made by CISC in the funds managed by China Securities Finance at a cost of RMB2,497.1 million in September 2015;

(ii) refundable deposits — consist primarily of the amount CISC is required to deposit with various exchanges and clearing houses as collateral for trading — which decreased significantly by RMB359.9 million as of 31 December 2015 compared to 2014 attributable to the decreased use of margin and securities refinancing; and

(iii) reverse REPOs — financial assets held under resale agreements — which increased by RMB222.9 million as of 31 December 2015 compared to 2014 and by a further RMB526.0 million as of 30 June 2016 as a result of the increased use of securities backed lending.

Current assets of the CISC Group were mainly made up of:

(i) receivables from margin clients, which increased by RMB15,021.4 million and RMB2,804.4 million as of 31 December 2014 and 2015 respectively compared to the previous year ends attributable to the increased demand for the margin financing and securities lending services in line with the favorable market conditions, and decreased by RMB7,441.4 million as of 30 June 2016 as a result of lower demand of such services due to less favorable market conditions;

(ii) financial assets at fair value through profit or loss, which increased by RMB4,059.6 million as of 31 December 2015 compared to 2014 attributable to an increase in the position of financial assets held by CISC;

(iii) cash held on behalf of brokerage clients, which increased by RMB15,994.6 million and RMB16,707.5 million as of 31 December 2014 and 2015 compared to the previous year ends and decreased by RMB7,989.3 million as of 30 June 2016, in line with the growth in trading volume of the brokerage business; and

(iv) cash and bank balances, which increased by RMB2,644.4 million and RMB3,824.6 million as of 31 December 2014 and 2015 respectively compared to the previous year ends primarily as a result of increased use of repurchase transactions in 2014 and the issuance of debt securities by CISC in 2015, and decreased by RMB2,876.8 million as of 30 June 2016 primarily as a result of the repayment of debt securities.

(2) *Liabilities of the CISC Group*

Non-current liabilities of the CISC Group were mainly made up of:

(i) long-term debt securities issued, which increased by RMB480.0 million and RMB8,797.4 million as of 31 December 2014 and 2015 respectively compared to the previous year ends as a result of issuance of long-term beneficiary certificates in December 2014 and corporate bonds and subordinated bonds in 2015; and

(ii) REPOs — financial assets sold under repurchase agreements — which increased by RMB3,200.0 million and RMB3,640.0 million as of 31 December 2014 and 2015 respectively compared to the previous year ends as a result of the increased use of financing backed by repurchase transactions, and decreased by RMB6,840.0 million as of 30 June 2016 due to reclassification of financing backed by cash flow rights of margin loans with maturity date less than one year from non-current liabilities into current liabilities.

Current liabilities of the CISC Group were mainly made up of:

(i) accounts payable to brokerage clients, which increased by RMB15,980.3 million and RMB16,845.8 million as of 31 December 2014 and 2015 compared to the previous year ends and decreased by RMB8,025.1 million as at 30 June 2016, in line with the growth in trading volume of the brokerage business and the balance of cash held on behalf of brokerage clients;

(ii) placements from financial institutions, which decreased by RMB2,539.4 million as of 31 December 2015 compared to 2014 primarily due to repayment of placements from China Securities Finance;

(iii) REPOs, which increased substantially by RMB11,727.0 million as of 31 December 2014 compared to 2013 as a result of the increased use of repurchase transactions, and decreased by RMB2,795.5 million as of 31 December 2015 due to the decreased use of repurchase transactions; and

(iv) long-term debt securities issued due within one year, which increased by RMB2,737.0 million as of 31 December 2015 compared to 2014 as a result of the increase in beneficiary certificates due within one year in 2015.

(d) ***Non-compliance incidents***

The PRC securities industry is highly regulated, failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions. During the period under review, CISC and its employees had been involved in certain non-compliance incidents and regulatory investigations, and received warnings from or subject to penalty imposed by the relevant regulatory authorities. Shareholders' attention is drawn to the section headed "Business-Legal and Regulatory-Regulatory Non-compliances" in Appendix VI to the Circular for the non-compliance incidents of CISC and the primary remedial measures taken by the CISC Group.

According to the Provisions on the Classified Supervision and Administration of Securities Companies issued by the CSRC, securities firms are annually classified into different categories in accordance with, amongst others, industry development, their previous classifications, and distribution of regulatory points. Based on the classification results of securities firms, the CSRC will adopt differentiated regulatory policies on securities firms in different categories in areas such as administrative permission, allocation of supervisory resources, and the frequency of on-site and off-site inspection. As stated in the PRC Legal Opinion, despite such regulatory non-compliances may lead to deduction of regulatory points, the PRC Legal Adviser is of the view that they would not have material adverse impact on the operation and financial position of the CISC Group.

3. **PRC Securities Industry overview**

The PRC securities industry has shown a substantial growth in recent years. According to SAC, a non-profit and self-regulated organization established under the relevant provisions of the Securities Law of the PRC and the Regulations on the Administration of Registration of Social Organisation and operated under the guidance and supervision of the CSRC and the State Ministry of Civil Affairs, the aggregate revenue of the PRC securities firms was RMB575.2 billion for the year ended 31 December 2015, representing a compound annual growth rate of 43.4% as compared to that of RMB136.0 billion for the year ended 31 December 2011 with the number of securities firm in the PRC increased from 109 as at 31 December 2011 to 125 as at 31 December 2015. Other business income from investment banking and asset management also registered a satisfactory growth in the past few years. Breakdown of the aggregate commission and fee income of the PRC securities firms is set out below:

**TABLE 6: AGGREGATE COMMISSION AND FEE INCOME OF PRC SECURITIES FIRMS**

| *(RMB billion)* | For the year ended 31 December | | | | | For the six months ended | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 | 2016 |
| Brokerage income | 68.9 | 50.4 | 75.9 | 104.9 | 269.1 | 158.4 | 56.0 |
| ***Year-on-year growth*** | — | ***-26.9%*** | ***+50.6%*** | ***+38.2%*** | ***+156.5%*** | — | ***-64.6%*** |
| Underwriting and sponsoring fees | 24.1[(1)] | 17.7 | 12.9 | 24.0 | 39.4 | 16.1 | 24.1 |
| ***Year-on-year growth*** | — | —[(1)] | ***-27.1%*** | ***+86.0%*** | ***+64.2%*** | — | ***+49.7%*** |
| Financial advisory fee | n.a.[(1)] | 3.6 | 4.5 | 6.9 | 13.8 | 4.4 | 7.1 |
| ***Year-on-year growth*** | — | — | ***+25.0%*** | ***+53.3%*** | ***+100.0%*** | — | ***+61.4%*** |
| Investment advisory income | n.a.[(2)] | 1.1 | 2.6 | 2.2 | 4.5 | 1.9 | 2.3 |
| ***Year-on-year growth*** | — | — | ***+136.4%*** | ***-15.4%*** | ***+104.5%*** | — | ***+21.1%*** |
| Asset Management fees | 2.1 | 2.7 | 7.0 | 12.4 | 27.5 | 12.2 | 13.4 |
| ***Year-on-year growth*** | — | ***+28.6%*** | ***+159.3%*** | ***+77.1%*** | ***+121.8%*** | — | ***+9.8%*** |

*Source: SAC*

*Notes:*

(1) In 2011, financial advisory fee has been aggregated with the underwriting and sponsoring fees, which is considered not appropriate to compare the year-on-year growth with the following year.

(2) No investment advisory income has been reported in 2011.

Following an extraordinary rally in the A-share market which lifted the PRC brokerage revenue significantly in 2015, an industry-wide slowdown took place in the first half of 2016 and the aggregate brokerage income of PRC securities firms declined by 64.6% year-on-year as major securities companies have continued to cut their brokerage commission rates in order to retain clients in a highly competitive market. Although the market is not expected to reach the peak in the first half of 2015 again in the near term, brokerage income in the first half of 2016 was, however, still on course to top the 2014 revenue, and securities brokers are expected to be boosted by the new Shenzhen-Hong Kong Stock Connect approved by the State Council in August 2016 as well as decreasing volatility in the PRC stock market, while other business income from investment banking and asset management continued to remain strong.

Under such a competitive industry landscape, business integration is imperative for PRC securities firms, particularly for small-to-medium sized securities companies, to diversify their business models and utilize one another's client network to create significant cross-selling opportunities. According to SAC, the top 10 securities firms in the PRC (in terms of revenue) accounted for over 40% of the aggregate industry revenue in 2015. Given the Enlarged Group hypothetically would have ranked 11th in the industry in terms of revenue based on the aggregate revenues of the Company and CISC as measured by SAC, the possible merger represents an unique opportunity for the Company to withstand increasing competition and enhance its industry position by expanding its client network and broadening its market share.

4. **Reasons for and benefits of the Acquisition**

The Company, through its subsidiaries, has been engaged in investment banking, equity sales, FICC, wealth management, investment management and relevant financial services since its listing in November 2015. As stated in the 2015 Annual Report, the Company will focus on expanding its scale and improving its quality by both organic growth and potential M&A opportunities with an aim to reinforce its advantages in traditional business, continue to expand its client base, sharpen its focus on capital-based business and increase investment in mid-and-back offices. The Proposed Acquisition represents an opportunity for the Company to capture the market opportunities and enhance its leading position in the securities industry since its listing in November 2015, which is also in line with the Company's strategies.

Both the Group and the CISC Group are full-licensed securities firms but with different key strengths and business structures. Particulars of businesses of the Group and the CISC Group are set out below:

**TABLE 7: PARTICULARS OF THE BUSINESSES OF THE GROUP AND THE CISC GROUP**

| | **The Group** | | **The CISC Group** | |
|---|---|---|---|---|
| Revenue for the year ended 31 December 2015 *(RMB million)* | | | | |
| - Fee and commission income | 6,587.8 | (69.6%) | 8,205.9 | (65.8%) |
| - Interest income | 1,020.5 | (10.8%) | 3,778.4 | (30.3%) |
| - Investment income | 1,853.3 | (19.6%) | 483.2 | (3.9%) |
| Total | 9,461.7 | (100.0%) | 12,467.6 | (100.0%) |
| Breakdown of fee and commission income for the year ended 31 December 2015 *(RMB million)* | | | | |
| - Brokerage commission income | 2,734.1 | (41.5%) | 7,404.7 | (90.2%) |
| - Underwriting and sponsoring fees | 2,196.6 | (33.3%) | 423.9 | (5.2%) |
| - Asset management fees | 908.9 | (13.8%) | 183.4 | (2.2%) |
| - Financial advisory fees | 537.5 | (8.2%) | 174.7 | (2.1%) |
| - Investment advisory fees | 210.7 | (3.2%) | 19.2 | (0.2%) |
| Total | 6,587.8 | (100.0%) | 8,205.9 | (100.0%) |
| Profit attributable to shareholders for the year ended 31 December 2015 *(RMB million)* | 1,918.8[(1)] | | 3,639.4 | |
| Net asset attributable to shareholders as at 30 June 2016 | 16,037.9[(2)] | | 14,719.8 | |
| Number of securities brokerage branches as at 30 June 2016 | 20 branches in 18 cities in the PRC | | 192 branches in 28 provinces in the PRC | |
| AUM as at 31 December 2015 *(RMB million)* | 107,001 | | 22,910 | |

*Notes:*

(1) Based on note 20 to the financial statement of the Company for the year ended 31 December 2015 in the 2015 Annual Report, it is derived from the net profit attributable to shareholders and holders of other equity instruments of RMB 1,952.6 million for 2015 less the accumulated interest for holders of perpetual subordinated bonds of RMB33.9 million.

(2) The amount is arrived at based on the total equity attributable to the Shareholders and holders of other equity instruments of RMB17,037.9 million less other equity instrument of RMB1,000 million as at 30 June 2016.

Despite the net asset size of each of the Group and the CISC Group in the past has been comparable, different business focus is seen in their segment results. The Group's investment income accounted for 19.6% of the total revenue for the year ended 31 December 2015 as compared to the CISC Group's 3.9% as the financial assets (including those at fair value through profit or loss) of the Group was almost 5 times that of the CISC Group as at 31 December 2015. The interest income of the Group, which accounted for 10.8% of its total revenue for the year ended 31 December 2015, is mainly derived from lending to financial institutions while the interest income of the CISC Group, which accounted for 30.3% of its total revenue for the year ended 31 December 2015, is mainly derived from margin financing and securities lending business.

About 90% of the fee and commission income of the Group is attributable to investment banking, brokerage and asset management businesses while about 90% of that of the CISC Group is solely derived from brokerage business. The Company is a well-established investment bank in the PRC and has been active in acting as bookrunners for the onshore and offshore equity offerings of PRC-based companies and as financial advisers advising PRC-related M&A transactions. The Company is also pioneered the wealth management business by first introducing a model driven by advisory services in China and has successfully developed its wealth management business with a strong base of high-end customers and AUM of RMB107 billion as at 31 December 2015. As compared to the Company, CISC has a more extensive local network and a large, loyal and high-quality retail client base. The Proposed Acquisition will not only further optimize the business structure of the Group with a more balanced mix of institutional brokerage, wealth management, investment banking and other businesses, but also facilitate and create significant cross-selling opportunities between the Group's and the CISC Group's investment banking, equity, FICC and investment management businesses.

Based on the unaudited pro forma financial information of the Enlarged Group in Appendix V to the Circular, the Group's net profit attributable to shareholders/equity holders and holders of other equity instruments will increase by 184.2% from RMB1,952.6 million to RMB5,550.3 million assuming completion of the Proposed Acquisition has taken place on 1 January 2015 and its total equity attributable to shareholders/equity holders and holders of other equity instruments will increase by 98.0% from RMB17,037.9 million to RMB33,738.6 million assuming completion of the Proposed Acquisition has taken place on 30 June 2016. As stated in the letter from the Board in the Circular, according to the ranking published by SAC, the Company and CISC ranked the 23rd and 17th respectively in terms of revenue in the securities industry in the PRC. It is expected that the Enlarged Group would have ranked the 11th in terms of revenue based on the aggregate revenues of the Company and CISC as measured by SAC.

Further details of the reasons for and benefits of the Proposed Acquisition are set out in the letter from the Board in the Circular.

Based on the above consideration, we are of the view that Proposed Acquisition is coherent with the Group's stated objective to expand the scale of the Group's business by organic growth and M&A opportunities that the Proposed Acquisition is expected to create synergistic effect to the Enlarged Group which will become a leading player of the PRC securities industry upon completion of the Proposed Acquisition.

5. **Principal terms of the Equity Transfer Agreement**

On 4 November 2016, the Equity Transfer Agreement was entered into by the Company as the purchaser and Hujin as the seller for the transfer of the 100% equity interest of CISC. Key terms of the Equity Transfer Agreement, as extracted from the letter from the Board in the Circular, are summarized as follows:

(a) ***Consideration***

The Consideration payable by the Company to Huijin pursuant to the Equity Transfer Agreement is RMB16,700.695 million, which will be satisfied by the issue of 1,678,461,809 Consideration Shares to Huijin at the Issue Price of approximately HK$11.55 per Consideration Share, subject to adjustments (if any). Adjustments will be made to the Issue Price in the event of a distribution of bonus Shares or transfer of capital reserve into registered capital, a rights issue, a declaration of cash dividend during the period from the date of signing the Equity Transfer Agreement to the Closing Date.

As set out in the letter from the Board of the Circular, the Consideration was determined with reference to the Appraised Value of approximately RMB16,700.695 million, which has been approved by MOF. The Issue Price was determined after arm's length negotiations between the parties with reference to the recent market trend on the share prices and the recent stock price of the H Shares.

(b) ***Consideration Shares***

The 1,678,461,809 Consideration Shares represent approximately 72.8% of the issued share capital of the Company as at the Latest Practicable Date and approximately 42.1% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date and up to the Closing Date). Details of the adjustment mechanism are set out in the letter from the Board in the Circular.

(c) ***Conditions precedent***

Completion of the Proposed Acquisition is subject to, among other things, (i) the approval of Independent Shareholders on the Proposed Acquisition (including the issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver, (ii) the approval of the MOF and CSRC on the Proposed Acquisition; (iii) approval of the CSRC Shenzhen branch in relation to the change of shareholder of CISC; and (iv) the granting of the Whitewash Waiver.

None of the conditions can be waived by the parties to the Equity Transfer Agreement.

In addition, the change of substantial shareholders of the corporations licensed by the SFC within the Group and the CISC Group as a result of the Proposed Acquisition is subject to the approval of the SFC pursuant to section 132 of the SFC. The Company undertakes to the Shareholders that no completion of the Proposed Acquisition shall take place until such approval and all applicable regulatory approvals required in connection with the Proposed Acquisition are obtained.

(d) ***Lock-up arrangement***

Subject to compliance with applicable laws and regulations, the Consideration Shares will be subject to a 60-month lock-up period starting from the Closing Date, during which period Huijin cannot dispose of its interest in the Consideration Shares.

(e) ***Arrangement during the Transitional Period***

Huijin shall be entitled to the profit, and be responsible for the losses, of CISC during the Transitional Period (i.e. the period from 1 July 2016 to the last day of calendar month in which the Delivery Date falls (the "**Special Audit Period**")). The profit or loss of CISC will be determined by a special audit during the Transitional Period. The profit attributable of owners of CISC will be distributed to Huijin as special dividend. If CISC incurs any losses during the Special Audit period, Huijin will compensate CISC by cash for such loss.

6. **Analysis of the Consideration**

As discussed in the letter from the Board in the Circular, the Consideration was arrived at with reference to the Appraised Value of RMB16,700.695 million. The Appraised Value is the fair value of the entire equity interest of CISC Group as at 30 June 2016 as appraised by the PRC Valuer, which is an independent firm of qualified PRC valuers (employed by Huijin to conduct valuation of the entire equity interest of the CISC Group). The Valuation Report, which has been prepared in compliance with the relevant PRC regulatory requirements and professional standards as required to obtain the relevant approvals for the Proposed Acquisition, was summarised in Appendix VII to the Circular.

As stated in the letter from the PRC Valuer set out in Appendix VII of the Circular, the PRC Valuer has reviewed the financial information of CISC as of 30 September 2016 and confirmed that there was no material change in the assumptions, bases and methods of valuation adopted in the Valuation Report during the period from 30 June 2016 to 30 September 2016. Accordingly, there was no material change in the Appraised Value as at 30 September 2016 as compared to that set out in the Valuation Report.

(a) ***PRC Valuation***

We have discussed the expertise of the PRC Valuer with its relevant staff member. We understand that the PRC Valuer is certified with the relevant PRC qualifications required to perform this valuation exercise, which include《資產評估資格證書》(Asset Appraisal Qualification Certificate) issued by Beijing Municipal Ministry of Finance and《證券期貨相關業務評估資格證書》 (Securities and

Futures-related Business Appraisal Qualification Certification) jointly issued by the Ministry of Finance of the PRC and the CSRC, and the person in-charge of the valuation of the CISC Group has approximately 10 years' industry experience in conducting valuation exercises. In the course of our review, we have discussed with the PRC Valuer the methodologies, bases and assumptions adopted in the Valuation Report.

(i) *Valuation methodologies*

Based on our discussion with the PRC Valuer and review of the Valuation Report, we noted that the PRC Valuer has adopted both the income approach and market approach to arrive at the value of the equity interest of the CISC Group. As discussed with the PRC Valuer, the income approach and market approach are generally considered to be the appropriate valuation methodologies over the asset-based approach to determine the appraised value of businesses similar to the CISC Group, as (i) there are relatively more comparable listed companies, and the operating and financial data of the comparable enterprises are sufficient and reliable for the valuation of the subject asset under the market approach; (ii) CISC has a long history of operation and its future revenue is predictable and valuation information is sufficient for the valuation under income approach; and (iii) securities companies are usually asset-light and its definite and indefinite intangible assets cannot be comprehensively reflected by asset-based approach. There is a difference between the appraised values based on these two approaches, and we understand that the difference in the valuation conclusion between the two valuation approaches is mainly due to: (i) the income approach considers and reflects the future profitability of the CISC Group; and (ii) the market approach mainly takes into account of the comparable market prices. In addition, the valuation under income approach gives a comprehensive consideration to the corporate business structure, customer resources, management, operation qualifications, human capital and other factors, the PRC Valuer therefore considers it more appropriate to adopt the appraised value of the CISC Group based on the income approach with that based on the market approach as a cross-check.

(ii) *Income approach*

Based on the income approach, the PRC Valuer valued the equity interest of the CISC Group based on the sum of the values of (a) the operating assets that generate revenue, (b) the non-operating assets and liabilities, and (c) valuation of long-term equity investments, which are detailed as follows:

(a) Income approach is used to capitalise or discount future projected cash flows of the operating assets that generate revenue to a single present value. Such information collected from the management team was then used to form the basis for valuation and estimation to derive the present value of the subject company. The PRC Valuer studied the future earnings potential of the CISC Group, and conducted discussions with the management team of the subject company to understand its budgets/projections for future years, together with industry research data to cross check the reasonableness of the inputs used by the management team of the CISC Group.

(b) The non-operating assets and liabilities of the CISC Group refer to those not relating to production and operation of the CISC Group and not involved in forecasting its free cash flows after 30 June 2016. Non-operating assets and liabilities of the CISC Group include deferred income tax assets, land use right of intangible assets, and deferred income tax liabilities. For these assets, the PRC Valuer adopted the asset-based approach to appraise its value.

(c) The long-term equity investments refer to three wholly-owned subsidiaries and one holding company. The valuation for the long-term investments is determined by the appraised value of such companies, which is determined by either the income or cost approach, as at the valuation reference date multiplied by the shareholding interest in the respective company.

The PRC Valuer has identified in the valuation process that might affect the valuation conclusion, which are set out in the section headed "Special Issues Explanations" in Appendix VII to the Circular. It includes the non-operating assets and liabilities of the CISC Group, for which the PRC Valuer adopted the asset-based approach to appraise its value, and they are the land use rights of the land B203-0021 and the land T107-0071.

Regarding the land use rights of the land B203-0021, based on the full version of the PRC Valuation Report and as advised by the PRC Valuer, the land premium of RMB43.7 million to be refunded to the CISC Group has been used in valuing the subject land, which is, in our view, reasonable.

Regarding the land use rights of the land T107-0071, the CISC Group may be subject to a surcharge on idle land equivalent to no more than 20% of the property grant premium and the forfeiture of the land if such land parcel is identified as idle land as stipulated under the Measures on the Disposal of Idle Land. As stated in the section headed "2. Risks factors — The regulatory authorities in the PRC may impose fines on CISC or reclaim its land if CISC fails to comply with the terms of the land grant contract" in Appendix VI to the Circular, the PRC legal advisors are of the view that the risk that CISC would be subject to forfeiture of land is relatively low as the delay in commencement of construction was mainly caused by the delay of the finalization of infrastructure planning with the government. Further details are also set out in the section headed "Properties — Properties under construction in the PRC" in Appendix VI to the Circular. The Directors has estimated that the maximum exposure to idle land fee would be RMB112.2 million accounting for less than 1% of the Appraised Value. As advised by the PRC Valuer, no such estimated penalty has been accounted for in the Appraised Value.

Having considered (i) the likelihood of the forfeiture of the land use rights of the land T107-0071 is, as advised by the PRC legal adviser, low by the government; (ii) such idle land fee may or may not be materialized; and (iii) the maximum possible fee would be less than 1% of the Appraised Value, the maximum idle land fee, if materialise, would not adversely affect our analysis in cross-checking the fairness and reasonable of the Consideration as set out in the section headed "6. Analysis of the Consideration — (b) peers comparison and (c) comparable transactions" below.

We have discussed these methods with the PRC Valuer and reviewed with them the reasons for adopting the various valuation methodologies and the bases and assumptions used for valuing the equity interest of the CISC Group, we are of the opinion that, the chosen valuation methodologies in establishing the Appraised Value as at 30 June 2016 are in line with the market practice and appropriate for valuation of similar businesses.

In this case, the Consideration is equivalent to the Appraised Value as carried out by a valuer appointed by the seller. One approach would be for the buyer to appoint its own valuer and obtain a second valuation. The Company has decided not to do this. Our view is that a buyer's professional business valuation is not essential in this case, as we believe the principle factors and reasons we have taken into account provide a satisfactory basis for our opinion without the benefit of a second valuation. Some of the principle factors relate to general business aspects, as discussed in section headed "4. Reasons for and benefits of the Acquisition" above; these form part of our view and are independent of a specific valuation; the analytical factors which we have considered and believed a business valuer would consider, are set out in the following sub-sections and we consider, taken together, that they show a favourable basis for the Company.

(b) ***Peers comparison***

Having considered that (i) completion of the Proposed Acquisition would result in the assets and liabilities of CISC being listed in Hong Kong as a wholly-owned subsidiary of the Company; (ii) the CISC Group mainly operates in the PRC; and (iii) the majority of the CISC Group's revenue was derived from the brokerage business, we have identified the following Hong Kong-listed securities firms which mainly operate in the PRC and are broadly comparable to the CISC Group with around 50% or more segment revenue contributed by the brokerage and wealth management business in their respective latest financial year. The selected comparable listed companies, in our view, are exhaustive, fair and representative samples for comparison. Their respective trailing 12-month price-to-earnings ratio ("**TTM P/E ratio**"), which, in our view, is a better indicator than the price-to-earnings ratios (based on the full-year financial results for the year ended 31 December 2015) as the TTM P/E ratio takes into account the industry slowdown in the second half of 2015 and first half of 2016, which would better reflect the current market valuation of the comparable listed companies, and the price-to-book ratio ("**P/B ratio**") are set out below.

## TABLE 8: COMPARABLE HONG KONG-LISTED COMPANIES OF THE CISC GROUP

| Company name (HK stock code) | Principal activities | Market capitalisation (HK$ million) (1) | TTM P/E ratio (times) (2) | P/B ratio (times) (3) |
|---|---|---|---|---|
| Haitong Securities Co., Ltd. (6837) | Securities and futures contracts dealing and broking, proprietary trading, margin and other financing, underwriting, assets management and provision of investment advisory and consultancy services. | 157,133.2 | 13.60 | 1.29 |
| GF Securities Co., Ltd. (1776) | Provision of capital market services focused on serving China's quality SMEs and affluent individuals, provide investment banking, wealth management, trading and institutional client services and investment management. | 130,320.6 | 12.72 | 1.52 |
| Huatai Securities Co., Ltd. (6886) | Provision of brokerage and wealth management service, investment banking service, asset management service, investment and trading service, overseas service to individual, institutional and corporate clients. | 115,607.1 | 14.51 | 1.26 |
| China Merchants Securities Co., Ltd (6099) | Offering of financial products and services including brokerage and wealth management, investment banking, investment management, investment and trading. | 80,125.1 | 11.82 | 1.44 |
| China Galaxy (6881) | Provision of comprehensive securities services including brokerage, sales and trading as well as investment banking and investment management. | 68,859.0 | 9.20 | 1.08 |
| Everbright Securities Co (6178) | Offering of financial products and services to a large and diversified client base that includes enterprises, financial institutions, governments and individuals. | 53,300.7 | 10.72 | 1.20 |

| Company name (HK stock code) | Principal activities | Market capitalisation (HK$ million) (1) | TTM P/E ratio (times) (2) | P/B ratio (times) (3) |
|---|---|---|---|---|
| Central China Securities Co., Ltd. (1375) ...................... | Brokerages, investment consultancy and financial advisory, securities underwriting and sponsorship, proprietary trading, asset and fund management and direct investment, agency sale of funds, introducing broker for futures companies and financing. | 12,894.9 | 15.44 | 1.43 |
| Hengtou Securities (1476)..... | Provision of financial products and services to corporations, financial institutions, government entities and individuals, through brokerage and wealth management, investment management, proprietary trading and investment banking businesses. | 9,246.2 | 11.12 | 0.85 |
| Guolian Securities (1456)...... | Provision of financial products and services to individuals, corporations, financial institutions and government entities including brokerage, investment banking, asset management and investment, credit transactions and proprietary trading. | 7,799.8 | 7.91 | 0.93 |
| | | **Mean** | **11.89** | **1.22** |
| | | **Median** | **11.82** | **1.26** |
| | | **Maximum** | **15.44** | **1.52** |
| | | **Minimum** | **7.91** | **0.85** |
| | | **The Company** | **16.59** | **1.35** |
| | | **The CISC Group** | **8.48(4)** | **1.13(4)** |

*Source:* Bloomberg and website of the Stock Exchange

*Notes:*

1. The market capitalisation is calculated based on the closing prices of the respective companies on the Stock Exchange on 3 November 2016, being the last trading day prior to the Announcement and signing of the Equity Transfer Agreement, multiplied by the total number of shares in issue.
2. The TTM P/E ratios are calculated based on the market capitalisation divided by the consolidated net profit attributable to shareholders for the trailing twelve months ended 30 June 2016.
3. The P/B ratios are calculated based on the market capitalisation divided by the consolidated net asset value attributable to shareholders as at the latest financial reporting period end.
4. The TTM P/E and P/B ratios of the CISC Group are calculated based on the consideration of RMB16,700.695 million for the Proposed Acquisition under the Equity Transfer Agreement.
5. The calculations above are based on the exchange rate of HK$1.00 to RMB0.86122.

A total of 9 comparable listed companies in Hong Kong were identified, where the ranges of TTM P/E ratios and P/B ratios were approximately 7.91 times to 15.44 times and approximately 0.85 times to 1.52 times, while the means were 11.89 times and 1.22 times respectively. The multiples of the CISC Group are lower than both the means of and within the range of the TTM P/E ratios and P/B ratios of all 9 comparable listed companies. The TTM P/E ratio of the CISC Group is below the ratios of 8 out of 9 comparable listed companies, while the P/B ratio of the CISC Group is below the mean and within the range of the P/B ratios of these 9 comparable listed companies despite it is higher than 3 out of 9 comparable listed companies.

Shareholders should note that a liquidity discount and a control premium may be applied on the market valuation of a private company such as the CISC Group under the Proposed Acquisition by adopting market approach. Liquidity discount is a decrease in value of a private company compared to those of listed companies while control premium is an increase in value for a controlling stake as compared to the sale and purchase of minority shares on the stock markets. Having considered the determination of suitable liquidity discount and control premium is relatively subjective and the liquidity discount and the control premium may largely offset against each other, our analysis above does not include any liquidity discount or premium for control.

On the basis that both the TTM P/E ratio and P/B ratio of the CISC Group are below the means and within the range of the comparable listed companies, we consider the consideration under the Proposed Acquisition to be reasonable as compared to the comparable listed companies.

(c) ***Comparable transactions***

In assessing the fairness and reasonableness of the Consideration, we have also considered the comparable transactions since the beginning of 2013 involving (i) sale and purchase of the controlling stake of securities firms in the PRC; (ii) the target companies which are unlisted; and (iii) the enterprise value based on the subject transaction over RMB1 billion, which are broadly comparable to the business nature and circumstances of the CISC Group. The selected comparable transactions, in our view, are comparable to the Proposed Acquisition. We have summarised the aforesaid comparable transactions with their respective P/E ratio and P/B ratio which, in our view, are exhaustive samples since the beginning of 2013 in the table below.

## TABLE 9: COMPARABLE TRANSACTIONS INVOLVING SALE AND PURCHASE OF UNLISTED SECURITIES COMPANIES

| Announcement date | Purchaser | Seller | Target company (Stake acquired) | Principal business | P/E ratio | P/B ratio |
|---|---|---|---|---|---|---|
| 27 January 2016.... | Hebei Baoshuo Co. Ltd. (stock code: 600155.ss) | 13 existing shareholders of Hua Chuang Securities Co Ltd | Hua Chuang Securities Co Ltd (95%) | China-based company engaged in providing securities brokerage services | 11.21 | 2.13 |
| 16 April 2015 ....... | East Money Information Co Ltd (stock code: 300059.sz) | Tibet Autonomous Region Investment Co Ltd; Zhengzhou Yutong Group Co Ltd | Tibet Tongxin Securities Commission Ltd (100%) | China based company engaged in a securities brokerage | 20.94 | 3.12 |
| 26 July 2014......... | Shareholders of Hongyuan Securities Co Ltd ("**Hongyuan**") (former stock code: 000562.sz) | N/A | Shenyin & Wanguo Securities Co Ltd ("**Shenyin**") (55%) | China-based investment bank engaged in securities trading and advisory service | 17.75[(1)] | 1.81[(1)] |
| 5 June 2014.......... | Guotai Junan Securities Co Ltd (stock code: 601211.ss) | Shanghai International Group Corporation Limited | Shanghai Securities Co., Ltd. (51%) | China-based securities brokerage dealer | 99.81 | 1.69 |
| 8 April 2014......... | Oceanwide Holdings Co Ltd (stock code: 000046.sz) | China Oceanwide Holdings Group Co Ltd; Oceanwide Energy Holdings Co Ltd | Minsheng Securities Co Ltd (73%) | China-based securities broking company | 43.97 | 1.38 |
| 29 November 2013................. | State Development & Investment Corporation | China Securities Investors Protection Fund Corporation Limited | Essence Securities Co Ltd (57%) | China-based company engaged in securities brokerage, financial advisory and asset management | 50.14 | 1.66 |
| | | | | Average | 40.64 | 1.97 |
| | | | | Median | 32.45 | 1.75 |
| | | | | Maximum | 99.81 | 3.12 |
| | | | | Minimum | 11.21 | 1.38 |
| | | | | **CISC Group** | **8.48** | **1.13** |

*Source:* Mergermarket and respective companies' news release

*Note:*

1. In July 2014, Hongyuan announced the merger by absorption with Shenyin, pursuant to which the shareholders of Hongyuan will transfer their shares to Shenyin in exchange for new shares issued by Shenyin. The P/E ratio and P/B ratio were determined based on the appraised value of Shenyin as set out in the valuation report prepared for the purpose of the share swap.

As shown above, the range of the P/E ratios of the comparable transactions is rather wide. 3 out of 6 comparable transactions have P/E ratios over 40 times and the remaining three P/E ratios range from 11.21 and 20.94 times. The diverse range of P/E ratios, in our view, may not be useful for assessing the fairness of the Consideration.

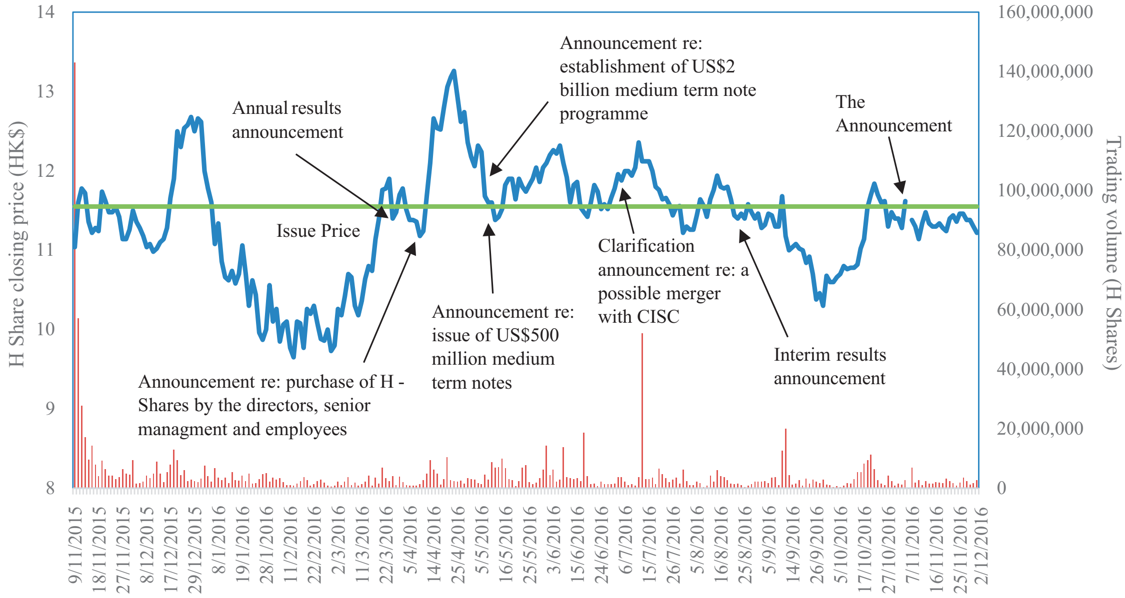
The P/B ratios of the comparable transactions ranged from 1.38 times to 3.12 times with a mean of 1.97 times. The P/B multiple of the CISC Group is lower than the multiples of those comparable transactions. On this basis, we consider the Consideration to be reasonable compared to the comparable transactions.

In carrying out our work in this case to assess the fairness and reasonableness of the Consideration, we have studied P/B and P/E multiples of the Hong Kong listed securities companies which mainly operate in the PRC and tested the valuation of the unlisted PRC securities companies through a review of comparable transactions. Our analysis shows that (i) the TTM P/E ratio of the CISC Group is lower than those of 8 out of 9 comparable companies set out in Table 8; and (ii) its P/B ratio is lower than those of 6 out of 9 comparable companies set out in Table 8 and all the target companies under the comparable transactions set out in Table 9, which is a clear outcome. On these grounds, based on our analysis which we consider is fully sufficient to assess the Consideration, we consider the consideration under the Proposed Acquisition to be reasonable as compared to the comparable listed companies and the comparable transactions.

(b) ***Analysis of the Issue Price***

The Issue Price has been determined following arm's length negotiation between the Company and Huijin with reference to the recent market trend on stock prices and the recent stock price of the H Shares. The chart below shows the Issue Price and the closing price of the H Shares during the period commencing on 9 November 2015, being the date of its listing, to 2 December 2016, being the Latest Practicable Date. (the "**Review Period**"):

**FIGURE 1: H SHARE PRICE PERFORMANCE COMPARED TO ISSUE PRICE**




*Source:* Bloomberg and website of the Stock Exchange

The Company has been listed on the Stock Exchange since 9 November 2015 by way of offering 611,406,400 H Shares at HK$10.28 (the "**IPO Price**") each. As shown above in Figure 1, the H Shares closed most of the time above the IPO Price with an average closing price of HK$11.37 during the Review Period. The Issue Price represents 4.6% premium over the 30-day average closing price of the H-Shares prior to the last trading day immediately before the date of the Announcement (the "**Last Trading Day**").

The H Share closing price dropped to its lowest during the Review Period at HK$9.65 on 12 February 2016 following it reached above HK$12 in December 2015. The H Share closing price resumed its uptrend when it was close to announce its annual results for the year ended 31 December 2015. The closing price of the H Shares edged further higher to reach its highest during the Review Period at HK$13.26 in April 2016 following the annual results announcement on 29 March 2016 and the purchase of the H Shares in the secondary market by the directors, senior management and employees of the Company as announced on 11 April 2016. The H Share price then closed within the range of HK$10 to HK$12. The Company announced on 12 May 2016 that US$500 million is raised by issuance of medium term notes due in 2019 carrying an interest rate of 2.75% per annum. A clarification announcement was made by the Company in July 2016 that it was only in preliminary discussion with CISC regarding strategic cooperation and business opportunities but no agreement has been entered into by them.

The Announcement regarding the Proposed Acquisition was made on 4 November 2016. The H Share closing price closed lower at HK$11.38 following the Announcement and then oscillated in a narrow range of HK$11.14 to HK$11.48 thereafter until the Latest Practicable Date.

7. **Financial effects of the Proposed Acquisition**

Upon completion of the Proposed Acquisition, CISC will become a wholly-owned subsidiary of the Company, and the CISC Group's financial information will be consolidated into the financial statements of the Enlarged Group.

Based on the pro forma financial information as set out in the Appendix V to the Circular and our computation, a summary of the key figures of the Group and the Enlarged Group to illustrate the financial effects of the Proposed Acquisition is set out below:

**TABLE 10: FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION**

| | The Group | The Enlarged Group | +/- |
|---|---|---|---|
| **For the year ended 31 December 2015** | | | |
| Net profit attributable to shareholders/equity holders of the Company and holders of other equity instruments *(RMB million)* | 1,952.6 | 5,550.3 | 184.2% |
| Net profit attributable to shareholders [1] *(RMB million)* | 1,918.8 | 5,516.4 | 187.5% |
| *Earnings per Share (RMB)[3]* | *0.83* | *1.38* | *66.3%* |
| **As at 30 June 2016** | | | |
| Total equity attributable to shareholders/equity holders of the Company and holders of other equity instruments *(RMB million)* | 17,037.9 | 33,738.6 | 98.0% |
| Total equity attributable to shareholders [2] *(RMB million)* | 16,037.9 | 32,738.6 | 104.1% |
| *Net asset value per Share (RMB)[3]* | *6.95* | *8.22* | *18.2%* |
| Gearing ratio | 80.2% | 74.3% | 5.9% |
| Working capital *(RMB million)* | 20,294.1 | 38,569.5 | 90.1% |
| Cash and bank balances *(RMB million)* | 12,186.8 | 18,388.3 | 50.9% |

*Notes:*

(1) Based on note 20 to the financial statement of the Company for the year ended 31 December 2015 in the 2015 Annual Report, it is derived from the net profit attributable to shareholders and holders of other equity instruments of RMB 1,952.6 million for 2015 less the accumulated interest for holders of perpetual subordinated bonds of RMB33.9 million.

(2) The amount is arrived at based on the total equity attributable to the Shareholders and holders of other equity instruments of RMB17,037.9 million less other equity instrument of RMB1,000 million as at 30 June 2016.

(3) It is calculated based on 2,306,669,000 Shares, being the number of Shares in issue as at 31 December 2015 and 30 June 2016 for the earnings per Share and net asset value per Share of the Group respectively and 3,985,130,809, being the number of Share in issue as at 31 December 2015 and 30 June 2016 as enlarged by the issue of the Consideration Shares for the earnings per Share and net asset value per Share of the Enlarged Group respectively.

(4) The figures in the table above are approximate figures which have been rounded to the first or second decimal place.

(a) ***Earnings***

As set out in Table 10 above, assuming the Proposed Acquisition was completed on 1 January 2015, the pro forma net profit attributable to shareholders /equity holders and holders of other equity instruments of the Enlarged Group for the year ended 31 December 2015 would increase by 184.2% from RMB1,952.6 million to RMB5,550.3 million (or by 187.5% from RMB1,918.8 million to RMB5,516.4 million if the accumulated interest for holders of perpetual subordinated bonds was excluded). The increase was primarily due to the consolidation of the net profit of the CISC Group attributable to its shareholders of RMB3,639.4 million, and having taken into account (i) the additional depreciation of RMB55.7 million arising from the fair value adjustments to property and equipment, intangible assets and other non-current assets; (ii) no impairment on goodwill is required as assessed by the Directors; (iii) no adjustment has been made for acquisition-related costs which are considered insignificant by the Directors; and (iv) no adjustment has been made to reflect the trading results or other transactions of the Group and the CISC Group entered into subsequent to 31 December 2015.

On a per Share basis, the pro forma earnings per Share of the Enlarged Group for the year ended 31 December 2015 would be approximately RMB1.38 (based on 2,306,669,000 Shares in issue as at 31 December 2015 plus 1,678,461,809 Consideration Shares) compared to the earnings per Share of the Group of RMB0.83 (based on 2,306,669,000 Shares in issue as at 31 December 2015).

However, Shareholders should note that the profit attributable to the Shareholders and the shareholder of the CISC for the six months ended 30 June 2016 dropped by 51.7% and 68.1% respectively as compared to the corresponding period last year due to weak performance of the PRC stock market and therefore, the above pro forma earnings, which do not represent the future profitability of the Enlarged Group, are for reference only.

(b) ***Total equity attributable to the shareholders***

As set out in Table 10 above, assuming the Proposed Acquisition was completed on 30 June 2016, the pro forma total equity attributable to shareholders/equity holders and holders of other equity instruments of the Enlarged Group as at 30 June 2016 would increase by 98.0% to RMB33,738.6 million (or by 104.1% to RMB32,738.6 million if the balance of other equity instrument was excluded). The increase was mainly due to the consolidation of all assets and liabilities of the CISC Group with the total equity attributable to its owners amounted to RMB14,719.8 million as at 30 June 2016, and adjusted by (i) goodwill arising from the Proposed Acquisition of RMB1,388.2 million; (ii) fair value adjustments on property and equipment, intangible assets and other non-current assets held by the CISC Group amounting to RMB792.9 million; offset by (iii) recognition of the related deferred tax liabilities of RMB198.2 million.

On a per Share basis, the pro forma total equity per Share attributable to Shareholders of the Enlarged Group as at 30 June 2016 would be approximately RMB8.22 (based on 2,306,669,000 Shares in issue as at 30 June 2016 plus 1,678,461,809 Consideration Shares) compared to the total equity per Share attributable to Shareholders of RMB6.95 (based on 2,306,669,000 Shares in issue as at 30 June 2016).

The actual impact on the total equity attributable to Shareholders and holders of other equity instruments of the Enlarged Group will be subject to change as such amount will be calculated based on carrying values of assets and liabilities of the CISC Group as of the date on which completion of the Proposed Acquisition shall take place.

(c) ***Gearing and liquidity***

As set out in Table 10 above, assuming the Proposed Acquisition was completed on 30 June 2016, the gearing and liquidity of the Enlarged Group would both be enhanced upon completion of the Proposed Acquisition. As at 30 June 2016, the Enlarged Group's pro forma gearing ratio, being total liabilities (deducted by accounts payable to brokerage clients) divided by total assets (deducted by accounts payable to brokerage clients), would be reduced to 74.3% compared with the Group's gearing ratio of 80.2%. The Enlarged Group's pro forma working capital (being total current assets less total current liabilities) and cash and bank balances of the Group would both also be increased by 90.1% and 50.9% respectively as compared to the Group's working capital and cash and bank balances as at 30 June 2016.

8. **Shareholding structure of the Company**

Details of the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Proposed Acquisition (assuming there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date up to the completion date) are set out below:

**TABLE 11: SHAREHOLDING STRUCTURE OF THE COMPANY**

| | | As at the Latest Practicable Date | | Immediately upon completion of the Proposed Acquisition | |
|---|---|---|---|---|---|
| **Name** | **Class of Shares** | **No. of Shares** | **Approximate percentage of issued share capital** | **No. of Shares** | **Approximate percentage of issued share capital** |
| Huijin and parties acting in concert with it | Domestic Shares | 658,928,671 | 28.57% | 2,337,390,480 | 58.65% |
| China National Investment and Guaranty Corporation | Domestic Shares | 127,562,960 | 5.53% | 127,562,960 | 3.20% |
| GIC Private Limited | H Shares | 273,091,435 | 11.84% | 273,091,435 | 6.85% |
| TPG Asia V Delaware, L.P. | H Shares | 171,749,719 | 7.45% | 171,749,719 | 4.31% |
| KKR Institutions Investments L.P. | H Shares | 166,747,300 | 7.23% | 166,747,300 | 4.18% |
| Mingly Corporation | H Shares | 122,559,265 | 5.31% | 122,559,265 | 3.08% |
| The Great Eastern Life Assurance Company Limited | H Shares | 83,373,650 | 3.61% | 83,373,650 | 2.09% |
| Other Public Shareholders | H Shares | 702,656,000 | 30.46% | 702,656,000 | 17.63% |
| **Total** | | 2,306,669,000 | 100% | 3,985,130,809 | 100% |

Huijin is a state-owned investment company established in accordance with the PRC Company Law. Huijin, which is headquartered in Beijing, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises, on behalf of the PRC government. As at the Latest Practicable Date, Huijin and its concert parties are interested in approximately 28.57% in the Company. Further details of Huijin are set out in the letter from the Board in the Circular.

As shown in the table above, the shareholding of the existing Shareholders (other than Huijin and its concert parties) in the Company will decrease from approximately 71.43% to approximately 41.35% immediately after Completion. Huijin will become the controlling Shareholder upon Completion. Although the shareholding interest of the existing other public Shareholders will be diluted, having taken into account (i) the benefits to be brought about by the Proposed Acquisition; (ii) the fairness and reasonableness of the Consideration; (iii) the fairness and reasonableness of the Issue Price; (iv) the Consideration Shares, being Domestic Shares, will not be traded on the Stock Exchange and therefore will not affect the public float and liquidity of the H Shares; (v) the increase in the ranking in the securities industry in China in terms of net assets; and (vi) the increase in earnings per Share and net asset value per Share upon completion of the Proposed Acquisition, we are of the view that the dilution effect on shareholding of the existing other public Shareholders to be acceptable.

9. **The Whitewash Waiver**

Upon completion of the Proposed Acquisition, Huijin and its concert parties will hold approximately 58.65% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date and up to the Completion Date). Under Rule 26.1 of the Takeovers Code, Huijin would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by Huijin and parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. In this regard, Huijin has applied to the Executive for the Whitewash Waiver. As stated in the letter from the Board, the Company notes that the Executive may not grant the Whitewash Waiver if the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Associates) does not comply with other applicable rules and regulations (including the Listing Rules). The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders at the EGM and the Shareholders' Class Meetings by way of poll.

Independent Shareholders should note that the Proposed Acquisition is conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Proposed Acquisition and the Whitewash Waiver by the Independent Shareholders at the EGM and the Shareholders' Class Meetings. Such condition precedent cannot be waived under the terms of the Equity Transfer Agreement. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved by the Independent Shareholders, the Equity Transfer Agreement will lapse and the Proposed Acquisition will not proceed. Based on the principal factors and reasons as set forth above, we are of the view that the terms of the Proposed Acquisition contemplated under the Equity Transfer Agreement and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

## DISCUSSION AND ANALYSIS

The Company, listed in November 2015, is a full-licensed securities company with a focus on wealth management, investment banking and principal investments. The Group has a strong base of high-end customers with 20 branches in 18 cities in the PRC as at 30 June 2016. Despite the Company registered a 74.6% year-on-year growth in profitability for 2015, an industry-wide slowdown is seen in the first half of 2016 with the PRC brokerage revenue dropped by 64.6% year-on-year in the first half of 2016 as a result of the A-share market retreat and downward pressure on brokerage commission. The competition in the PRC wealth management industry has become increasingly intensive with both traditional financial institutions and emerging Internet players staking their claims. Relying merely on organic growth may not enable the Group to compete with its peers effectively. Therefore, the Proposed Acquisition, which is in line with the Group's stated objective in the 2015 Annual Report, offers a unique opportunity for the Company to expand its scale and promote its wealth management business by maximizing the synergies between the two entities and broaden its market share.

CISC, established in 2005, also offers a full array of investment banking services with over 90% of its revenue derived from brokerage services. CISC has a more extensive local network with a large client base as compared with the Company. As at 30 June 2016, CISC has 192 branches in 28 provinces in the PRC. It is therefore expected that cross-selling opportunities arise between the Company and CISC across investment banking, equity, fixed income, commodities and currencies and investment management businesses. Upon completion of the Proposed Acquisition, the Company will focus on operating institution business while CISC will focus on operating individual wealth management and retail brokerage business. The two entities will both use CICC brandname after a transitional period. Details of the business integration plan of the Enlarged Group are set out in the section headed "II. The Proposed Acquisition — (F) Prospects and future plan" in the letter from the Board. According to the ranking published by SAC, the Company and CISC ranked 23rd and 17th respectively in terms of revenue in the securities industry in the PRC, and the Enlarged Group would have ranked 11th in terms of revenue based on the aggregate revenues of the Company and CISC as measured by SAC.

The Consideration payable by the Company for the Proposed Acquisition of approximately RMB16,700.695 million, which was arrived at with reference to the Appraised Value, will be satisfied by the allotment and issue of Consideration Shares at the Issue Price of approximately HK$11.55 per Consideration Share to Huijin upon completion of the Proposed Acquisition. We have discussed with the PRC Valuer the methodologies, bases and assumptions adopted in the valuation and considered the chosen methodologies to be in line with market practice and appropriate for similar valuations. We have also carried out our own analysis to assess the value of the CISC Group in comparison to listed peers in Hong Kong and noted that the TTM P/E ratio of the Proposed Acquisition is approximately 8.48 times, which is lower than the ratios of 8 out of 9 comparable listed companies set out in Table 8, while the P/B ratio of 1.13 for the Proposed Acquisition is lower than 6 out of 9 of the P/B ratios of these comparable listed companies set out in Table 8 and all of the target companies under the comparable transactions set out in Table 9. On this basis, we therefore consider the Consideration under the Proposed Acquisition to be reasonable as compared to the comparable listed companies and the comparable transactions.

We also consider the Issue Price of approximately HK$11.55, which is 12.4% premium over the IPO Price of HK$10.28, to be acceptable as (i) it consistently represents a premium over the average closing prices of the Shares for each of the last 10, 30, 60 and 90 consecutive trading days up to and including the Last Trading Day; (ii) during the period from the beginning of 2016 to the Last Trading Day, the Share price closed at or below HK$11.55 in 116 days out of 206 trading days.

The financial effects of the Proposed Acquisition are generally positive. As set out in Table 10, the net profit attributable to the Shareholders/equity holders and holders of other equity instruments for the year ended 31 December 2015 would have increased by approximately 184.2% (or by 187.5% if the accumulated interest for holders of perpetual subordinated bonds was excluded), while the total equity attributable to the Shareholders/equity holders and holders of other equity instruments as at 31 December 2015 would have enhanced by as much as 98.0% (or by 104.1% if the balance of other equity instrument was excluded), assuming that the Proposed Acquisition was completed on 1 January 2015 and 30 June 2016 respectively. On a per Share basis, the pro forma earnings per Share for the year ended 31 December 2015 and the pro forma net asset value per Share as at 30 June 2016 would both be increased by approximately 66.3% and 18.2% respectively. Despite the drop in profit attributable to both the Shareholders and the shareholders of CISC for the six months ended 30 June 2016, which is in line with the industry performance due to weak performance of the PRC stock market, the Proposed Acquisition would still enlarge the earnings base of the Enlarged Group, taking into account the profitability of the CISC Group in the past, and also create synergistic effect between the two entities upon completion. The gearing and liquidity of the Enlarged Group would also both be expected to improve upon completion of the Proposed Acquisition.

As set out in Table 11, the shareholding of the existing Shareholders (other than Huijin and its concert parties) in the Company will decrease from approximately 71.43% to approximately 41.35% immediately after completion of the Proposed Acquisition. Having taken into account that (i) the Issue Price is acceptable; (ii) the Consideration Shares, being Domestic Shares, are not traded on the Stock Exchange and therefore will not affect the public float and liquidity of the H Shares, (iii) the cash balance of approximately RMB12,186.8 million of the Group as at 30 June 2016 falls short of the Consideration of approximately RMB16,700.7 million); (iv) the expected increase in both earnings per Share and net asset value per Share upon completion; and (v) the issue of the Consideration Shares will avoid immediate cash outlay (either from internal resources and/or external borrowings) and hence prevent weakening the working capital position and the gearing of the Group, we are of the view that the issue of the Consideration Shares resulting in the dilution of shareholding of the Independent Shareholders to be acceptable. Furthermore, the issue of the Consideration Shares would also align the interests of the Shareholders and Huijin, and hence facilitate the realisation of the intended synergies and commercial benefits, which will benefit to the Company and the Shareholders as a whole.

In the event that the Proposed Acquisition and the Whitewash Waiver are not approved by the Independent Shareholders at the EGM, the Equity Transfer Agreement will lapse and the Proposed Acquisition will not proceed. In such circumstances, the Independent Shareholders will be unable to benefit from the Proposed Acquisition as discussed above. Based on the principal factors and reasons as set forth above, we are of the view that the terms of the Proposed Acquisition contemplated under the Equity Transfer Agreement and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

## OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that terms of the Proposed Acquisition contemplated under the Equity Transfer Agreement and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM and the Shareholders' Class Meetings to approve the Proposed Acquisition (including issuance of Consideration Shares and relevant amendments to the Articles of Association) and the Whitewash Waiver.

Yours faithfully,
for and on behalf of
**SOMERLEY CAPITAL LIMITED**

| | |
|---|---|
| **Kenneth Chow** | **Jenny Leung** |
| *Managing Director — Corporate Finance* | *Director* |

*Mr. Kenneth Chow and Ms. Jenny Leung are licensed persons and responsible officers of Somerley Capital Limited registered with the SFC to carry out type 6 (advising on corporate finance) regulated activities under the SFO and have participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.*

*The following is the text of a report received from KPMG, Certified Public Accountants, Hong Kong, the independent reporting accountants of the Company, which has been included in the Announcement of the Company dated 4 November 2016 and which is reproduced herein for Shareholders' information.*

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

4 November 2016

**REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF CHINA INVESTMENT SECURITIES CORPORATION LIMITED**

**TO THE BOARD OF DIRECTORS OF CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED (THE "COMPANY")**

We refer to the discounted future cash flows on which the business valuation (the "**Valuation**") dated 7 October 2016 prepared by 北京中企華資產評估有限責任公司 (China Enterprise Appraisals Co., Ltd.) in respect of the appraisal of the fair value of China Investment Securities Corporation Limited ("**CISC**") as at 30 June 2016 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and Rule 11.1(a) of the Code on Takeovers and Mergers issued by the Securities and Futures Commission (the "**Takeovers Code**").

**Directors' Responsibilities**

The directors of the Company (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules and Rule 10.3(b) of the Takeovers Code, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

**Basis of opinion**

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

**Opinion**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

**Other matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of CISC or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and Rule 10.3(b) of the Takeovers Code and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG

*Certified Public Accountants*
Hong Kong

*The following is the text of a report received from the Financial Advisers, which has been included in the Announcement of the Company dated 4 November 2016 and which is reproduced herein for Shareholders' information.*

The Board of Directors
China International Capital Corporation Limited
27th and 28th Floor, China World Office 2
1 Jianguomenwai Avenue
Chaoyang District
Beijing, PRC
4 November 2016

Dear Sirs,

We refer to the announcement of China International Capital Corporation Limited (the "**Company**") dated 4 November 2016 in relation to the Proposed Acquisition which constitutes a very substantial acquisition under the Listing Rules (the "**Announcement**") and also the valuation report dated 7 October 2016 prepared by China Enterprise Appraisals Co., Ltd., the independent valuer of the Company (the "**Independent Valuer**"), in respect of the valuation of CISC (the "**Valuation**"), we understand that the Independent Valuer has applied the discounted cash flow method to implement the Valuation. The Valuation which constitutes a profit forecast (the "**Forecast**") under Rule 14.61 of the Listing Rules and Rule 10 of the Takeovers Code. Unless otherwise defined or if the context otherwise requires, all terms defined in the Announcement shall have the same meaning when used in this letter.

We have discussed with the management of the Company, the management of CISC, the Independent Valuer regarding the bases and assumptions upon which the Forecast in the valuation report has been made. We have also considered the report addressed solely to and for the sole benefit of the Directors from KPMG dated 4 November 2016 set out in the Announcement regarding the calculation of discounted future estimated cash flow.

With regard to the Independent Valuer's qualifications and experience, we have conducted reasonable checks to assess the relevant qualification, experience and expertise of the Independent Valuer, including reviewing the supporting documents on the qualifications of the Independent Valuer and discussion with the Independent Valuer on their qualifications and experience.

We confirm that the assessment, review and discussion carried out by us as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that we have, in arriving at our views, relied on information and materials supplied to us by the Independent Valuer, the Group and CISC and opinions expressed by, and representations of, the employees and/or management of the Independent Valuer, the Group and CISC. We have assumed that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Announcement were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Announcement and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our respective assessment and review.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation method, we are of the opinion that the bases and assumptions upon which the Valuation is based have been made with due care and objectivity, and on a reasonable basis and that the Forecast has been made with due care and consideration. We are also satisfied that the Independent Valuer is suitably qualified and experienced with sufficient current knowledge, skills and understanding necessary to undertake the Valuation competently.

We have not independently verified the computations leading to the Independent Valuer's determination of the fair value and market value of CISC. We have had no role or involvement and have not provided and will not provide any assessment of the fair value and market value of CISC. Nothing in this letter should be construed as an opinion or view as to the fair value, market value or any other value of CISC. Accordingly, save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the fair value and market value of CISC as determined by the Independent Valuer and set out in the valuation report issued by the Independent Valuer or otherwise.

We are acting as financial advisers to the Company in reviewing the Forecast and will receive fees for such advice. We and our respective directors and affiliates will, neither jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the review of the Forecast, nor will us, our respective directors or affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company.

A copy of this letter in its entirety may be reproduced in the circular on the basis that none of the Company, the Independent Valuer or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

Yours faithfully,
For and on behalf of

**China International Capital Corporation Hong Kong Securities Limited**
**CHEN YONGREN**
*Executive Director*

**ABCI Capital Limited**
**LEO CHAN**
*Managing Director*

**MARCO WONG**
*Director*

## 1. FINANCIAL INFORMATION OF THE COMPANY

The financial information of the Company (i) for the two years ended December 31, 2013 and 2014, (ii) for the year ended December 31, 2015, and (iii) for the six months ended June 30, 2016, are disclosed in (i) the prospectus of the Company dated October 27, 2015, (ii) the annual report of the Company for the year ended December 31, 2015, and (iii) the interim report of the Company for the six months ended June 30, 2016, respectively, which are incorporated by reference into this circular. The aforementioned prospectus, annual report and interim report of the Company are available on the Company's website at www.cicc.com and the website of the Stock Exchange at www.hkexnews.hk.

i). The following is the hyperlink to the prospectus of the Company dated October 27, 2015 with its audited consolidated financial statements for the two years ended December 31, 2013 and 2014.

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/1027/LTN20151027031.pdf

ii). The following is the hyperlink to the annual report of the Company for the year ended December 31, 2015 published on April 22, 2016 with its audited consolidated financial statements for the year ended December 31, 2015.

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0422/LTN20160422313.pdf

iii). The following is the hyperlink to the interim report of the Company for the six months ended June 30, 2016 published on September 20, 2016 with its consolidated financial statements for the six months ended June 30, 2016, which has been reviewed by KPMG.

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0920/LTN20160920834.pdf

The following is a summary of the audited consolidated financial information of the Group for each of the three years ended December 31, 2013, 2014 and 2015 and the unaudited consolidated financial information of the Group for the six months ended June 30, 2015 and 2016, as extracted from the prospectus, relevant annual reports and interim report of the Company (expressed in Renminbi, unless otherwise stated). There were no extraordinary items or exceptional items because of size, nature or incidence for each of the aforesaid years and period. No qualified opinion had been given in the auditor's reports issued by the auditors of the Company in respect of the three years ended December 31, 2013, 2014 and 2015:

| | **Year ended December 31,** | | | **Six months ended June 30,** | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | | | | **Unaudited** | |
| **Revenue** | | | | | |
| Fee and commission income | 2,994,170,104 | 4,151,886,773 | 6,587,816,025 | 3,118,850,559 | 2,107,090,481 |
| Interest income | 325,294,518 | 449,808,145 | 1,020,499,994 | 419,114,201 | 455,266,289 |
| Investment income | 707,340,348 | 1,526,769,247 | 1,853,336,139 | 1,313,699,163 | 606,370,312 |
| **Total revenue** | 4,026,804,970 | 6,128,464,165 | 9,461,652,158 | 4,851,663,923 | 3,168,727,082 |
| Other income | 38,037,467 | 27,327,179 | 45,032,477 | 29,374,738 | 52,081,617 |
| **Total revenue and other income** | 4,064,842,437 | 6,155,791,344 | 9,506,684,635 | 4,881,038,661 | 3,220,808,699 |
| Fee and commission expenses | 168,305,110 | 227,772,376 | 419,557,701 | 147,973,874 | 134,907,614 |
| Interest expenses | 644,380,988 | 742,081,785 | 1,094,781,365 | 510,111,806 | 628,495,629 |
| Staff costs | 1,684,398,553 | 2,555,522,127 | 4,050,985,852 | 2,108,939,729 | 1,150,388,084 |
| Depreciation and amortization expenses | 110,330,343 | 59,910,934 | 51,081,279 | 23,546,818 | 31,936,478 |
| Business tax and surcharges | 176,282,298 | 247,998,331 | 406,279,919 | 196,711,945 | 85,032,612 |
| Other operating expenses | 802,988,635 | 852,802,787 | 963,710,851 | 425,559,780 | 476,941,382 |
| Provision for/(reversal of) impairment losses | 25,522,039 | 31,619,896 | 3,375,632 | (8,072,634) | (512,641) |
| **Total expenses** | 3,612,207,966 | 4,717,708,236 | 6,989,772,599 | 3,404,771,318 | 2,507,189,158 |
| Operating profit | 452,634,471 | 1,438,083,108 | 2,516,912,036 | 1,476,267,343 | 713,619,541 |
| Share of profits of associates and joint ventures | 48,892,421 | 67,773,612 | 103,665,364 | 36,159,406 | 25,733,653 |
| **Profit before income tax** | 501,526,892 | 1,505,856,720 | 2,620,577,400 | 1,512,426,749 | 739,353,194 |
| Less: Income tax expenses | 131,416,671 | 387,403,405 | 667,927,437 | 376,281,214 | 164,458,625 |
| **Profit for the year/period** | 370,110,221 | 1,118,453,315 | 1,952,649,963 | 1,136,145,535 | 574,894,569 |
| Attributable to: | | | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | 370,110,221 | 1,118,453,315 | 1,952,649,963 | 1,136,145,535 | 574,877,398 |
| Non-controlling interests | — | — | — | — | 17,171 |
| Basic and diluted earnings per share (in RMB per share) | 0.22 | 0.67 | 1.12 | 0.68 | 0.24 |
| **Profit for the year/period** | 370,110,221 | 1,118,453,315 | 1,952,649,963 | 1,136,145,535 | 574,894,569 |

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| **Other comprehensive income for the year/period** | | | | | |
| **Items that may be reclassified to profit or loss in subsequent periods:** | | | | | |
| Available-for-sale financial assets: | | | | | |
| - Changes in fair value | 33,942,435 | 33,084,000 | 181,809,905 | 59,454,799 | 18,879,929 |
| - Income tax effect | (3,827,260) | (4,043,748) | (14,787,481) | 726,320 | (4,498,766) |
| - Reclassified to profit or loss as investment income | (48,207,507) | (19,906,591) | (117,110,671) | (27,531,341) | (2,731,675) |
| - Reclassified to profit or loss as impairment losses | 18,743,250 | — | — | — | — |
| Interest in associates and joint ventures: | | | | | |
| - Share of other comprehensive income | (192,938) | — | — | — | — |
| - Income tax effect | 48,234 | — | — | — | — |
| Exchange differences on translation of financial statements of overseas subsidiaries | (50,643,242) | (2,156,843) | 149,525,466 | (1,897,976) | 66,337,402 |
| Total other comprehensive income for the year/period, net of tax | (50,137,028) | 6,976,818 | 199,437,219 | 30,751,802 | 77,986,890 |
| Total comprehensive income for the year/period | 319,973,193 | 1,125,430,133 | 2,152,087,182 | 1,166,897,337 | 652,881,459 |
| Attributable to: | | | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | 319,973,193 | 1,125,430,133 | 2,152,087,182 | 1,166,897,337 | 652,864,288 |
| Non-controlling interests | — | — | — | — | 17,171 |

| | As at December 31, | | | As at June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| **Non-current assets** | | | | | |
| Property and equipment | 136,284,239 | 135,188,965 | 166,368,921 | 133,399,860 | 183,937,363 |
| Intangible assets | 4,862,615 | 2,640,794 | 1,410,550 | 1,944,050 | 962,068 |
| Interest in associates and joint ventures | 397,469,568 | 565,433,784 | 452,647,843 | 631,714,030 | 486,709,379 |
| Available-for-sale financial assets | 316,995,266 | 388,451,021 | 581,340,923 | 487,617,722 | 675,829,713 |
| Refundable deposits | 220,167,931 | 325,017,473 | 517,873,149 | 533,286,830 | 804,184,708 |
| Deferred tax assets | 636,110,982 | 484,277,325 | 680,324,436 | 374,397,024 | 428,194,938 |
| Other non-current assets | 58,791,927 | 58,058,293 | 59,654,549 | 56,779,818 | 65,360,646 |
| **Total non-current assets** | 1,770,682,528 | 1,959,067,655 | 2,459,620,371 | 2,219,139,334 | 2,645,178,815 |
| **Current assets** | | | | | |
| Accounts receivable | 3,443,547,911 | 8,335,721,064 | 6,673,871,943 | 9,193,251,198 | 5,759,950,351 |
| Receivable from margin clients | 2,097,538,132 | 3,458,003,477 | 3,296,432,047 | 7,200,704,998 | 2,547,119,336 |
| Available-for-sale financial assets | 31,024,768 | 45,510,660 | 618,025,166 | 28,814,841 | 858,759,196 |
| Financial assets at fair value through profit or loss | 12,951,713,306 | 21,653,725,243 | 45,459,259,668 | 30,817,411,941 | 57,034,618,669 |
| Derivative financial assets | 1,358,045,188 | 732,808,142 | 736,244,468 | 1,232,746,143 | 2,085,671,243 |
| Financial assets held under resale agreements ("reverse REPOs") | 2,499,012,448 | 1,621,848,431 | 1,556,613,621 | 1,385,913,775 | 3,263,174,112 |
| Interest receivable | 307,251,876 | 341,953,007 | 478,508,038 | 347,613,940 | 593,979,163 |
| Cash held on behalf of brokerage clients | 5,235,512,213 | 11,084,580,427 | 24,301,353,512 | 36,319,109,634 | 20,523,945,792 |
| Cash and bank balances | 3,096,097,749 | 3,418,342,380 | 8,434,085,678 | 6,149,278,708 | 12,186,769,410 |
| Other current assets | 44,114,183 | 48,552,559 | 94,742,209 | 92,916,282 | 73,167,977 |
| **Total current assets** | 31,063,857,774 | 50,741,045,390 | 91,649,136,350 | 92,767,761,460 | 104,927,155,249 |
| **Total assets** | 32,834,540,302 | 52,700,113,045 | 94,108,756,721 | 94,986,900,794 | 107,572,334,064 |
| **Current liabilities** | | | | | |
| Financial liabilities at fair value through profit or loss | 788,289,598 | 7,525,929,706 | 5,584,316,162 | 9,797,031,481 | 9,340,828,311 |
| Derivative financial liabilities | 1,337,871,777 | 737,805,695 | 1,071,011,928 | 1,254,930,032 | 1,430,831,595 |
| Accounts payable to brokerage clients | 5,706,189,668 | 15,054,264,345 | 25,218,051,446 | 42,804,897,095 | 21,439,355,519 |
| Placements from financial institutions | 526,325,600 | 1,529,569,000 | 1,636,815,800 | 2,278,193,000 | 6,439,592,000 |
| Short-term debt securities issued | 1,000,000,000 | 900,000,000 | 1,700,000,000 | 3,070,000,000 | 4,919,200,877 |
| Financial assets sold under repurchase agreements ("REPOs") | 7,275,820,875 | 8,350,463,005 | 14,013,713,250 | 9,899,822,492 | 15,920,045,282 |
| Employee benefits payable | 2,059,701,979 | 2,142,051,626 | 3,013,948,204 | 2,124,263,496 | 1,310,594,049 |
| Income tax payable | 27,953,291 | 118,988,286 | 625,831,436 | 287,462,144 | 101,601,080 |
| Long-term debt securities issued due within one year | — | — | — | — | 3,000,000,000 |
| Other current liabilities | 2,997,202,129 | 4,028,052,712 | 16,391,938,868 | 6,981,571,698 | 20,731,013,725 |
| **Total current liabilities** | 21,719,354,917 | 40,387,124,375 | 69,255,627,094 | 78,498,171,438 | 84,633,062,438 |
| **Net current assets** | 9,344,502,857 | 10,353,921,015 | 22,393,509,256 | 14,269,590,022 | 20,294,092,811 |
| **Total assets less current liabilities** | 11,115,185,385 | 12,312,988,670 | 24,853,129,627 | 16,488,729,356 | 22,939,271,626 |
| **Non-current liabilities** | | | | | |
| Non-current employee benefits payable | 218,231,012 | 269,154,233 | 671,839,359 | 267,204,692 | 522,722,617 |
| Placements from financial institutions | — | — | 1,623,400,000 | — | — |
| Long-term debt securities issued | 4,005,988,500 | 4,009,635,000 | 6,071,444,000 | 6,008,744,000 | 5,292,601,160 |
| Deferred tax liabilities | 11,621,427 | 28,913,466 | 31,685,238 | 42,985,458 | 43,156,434 |
| Other non-current liabilities | 12,528,863 | 13,040,255 | 12,760,096 | 13,293,527 | 12,909,022 |

| | As at December 31, | | | As at June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| **Total non-current liabilities** | 4,248,369,802 | 4,320,742,954 | 8,411,128,693 | 6,332,227,677 | 5,871,389,233 |
| **Net assets** | 6,866,815,583 | 7,992,245,716 | 16,442,000,934 | 10,156,501,679 | 17,067,882,393 |
| **Equity** | | | | | |
| Paid-in capital/share capital | 1,667,473,000 | 1,667,473,000 | 2,306,669,000 | 1,667,473,000 | 2,306,669,000 |
| Other equity instruments | — | — | 1,000,000,000 | 1,000,000,000 | 1,000,000,000 |
| Reserves | 1,028,358,389 | 1,218,716,529 | 9,084,877,604 | 3,791,879,843 | 9,163,420,425 |
| Retained profits | 4,170,984,194 | 5,106,056,187 | 4,050,454,330 | 3,697,148,836 | 4,567,775,797 |
| Total equity attributable to equity holders/shareholders of the Company and holders of other equity instruments | 6,866,815,583 | 7,992,245,716 | 16,442,000,934 | 10,156,501,679 | 17,037,865,222 |
| Non-controlling interests | | | | | 30,017,171 |
| Total equity | 6,866,815,583 | 7,992,245,716 | 16,442,000,934 | 10,156,501,679 | 17,067,882,393 |

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | unaudited | |
| **Cash flows from operating activities:** | | | | | |
| Profit before income tax | 501,526,892 | 1,505,856,720 | 2,620,577,400 | 1,512,426,749 | 739,353,194 |
| **Adjustments for:** | | | | | |
| Interest expense on debt securities issued and other financing expenses | 262,223,177 | 318,406,982 | 440,534,761 | 188,108,067 | 272,393,180 |
| Depreciation and amortization expenses | 110,330,343 | 59,910,934 | 51,081,279 | 23,546,818 | 31,936,478 |
| Provision/(reversal) for impairment losses | 25,522,039 | 31,619,896 | 3,375,632 | (8,072,634) | (512,641) |
| Net loss on disposal of property, equipment and other assets | 7,111,152 | 1,060,481 | 6,166,012 | 2,917,821 | 3,540,716 |
| Fair value loss/(gain) on financial instruments at fair value through profit or loss | 114,925,960 | (601,425,587) | (26,461,310) | (190,506,924) | 6,841,045 |
| Foreign exchange loss/(gain) | 2,547,692 | (1,692,030) | (59,877,579) | 120,875 | 7,089,516 |
| Net gain on disposal of available-for-sale financial assets | (47,726,464) | (11,724,454) | (92,441,537) | (2,924,093) | (6,874,141) |
| Dividend income and interest income from available-for-sale financial assets, and share of profit of associates and joint ventures | (50,079,212) | (67,773,612) | (116,541,567) | (49,035,609) | (43,462,022) |
| **Operating cash flows before movements in working capital** | 926,381,579 | 1,234,239,330 | 2,826,413,091 | 1,476,581,070 | 1,010,305,325 |
| (Increase)/decrease in receivable from margin clients | (1,553,826,053) | (1,360,465,345) | 161,571,430 | (3,742,701,521) | 749,312,711 |
| (Increase)/decrease in accounts receivables, other receivables and prepayments | (1,477,867,230) | (4,908,219,515) | (853,351,799) | (812,502,304) | 563,779,007 |
| (Increase)/decrease in reverse REPOs | (1,866,728,354) | 688,464,017 | 60,234,810 | 230,934,657 | (1,454,359,505) |
| Increase in financial instruments at fair value through profit or loss | (167,601,880) | (1,202,992,477) | (20,907,609,384) | (7,476,011,829) | (10,041,914,061) |
| Decrease/(increase) in available-for-sale financial assets | 1,710,291 | (6,996,207) | 16,841,306 | 16,253,848 | — |
| Decrease/(increase) in cash held on behalf of brokerage clients | 1,695,875,029 | (5,849,068,214) | (13,216,773,085) | (25,234,529,207) | 3,777,407,720 |
| (Increase)/decrease in restricted bank deposits | (92,737,593) | 56,777,738 | (375,325,979) | (17,576,034) | (384,858,732) |
| Increase in refundable deposits | (21,626,170) | (104,816,964) | (192,774,607) | (208,199,413) | (257,683,221) |
| (Decrease)/increase in accounts payables to brokerage clients | (2,110,355,728) | 9,348,074,677 | 10,163,787,101 | 27,750,632,750 | (3,778,695,927) |
| Increase in REPOs | 653,250,056 | 1,074,642,130 | 3,843,250,245 | 1,549,359,487 | 2,766,332,032 |
| Increase in other liabilities | 1,499,402,825 | 2,202,980,356 | 13,629,305,951 | 4,410,494,094 | 7,238,242,830 |
| Cash (used in)/generated from operating activities, before tax | (2,514,123,228) | 1,172,619,526 | (4,844,430,920) | (2,057,264,402) | 187,868,179 |
| Income taxes paid | (25,338,275) | (130,503,097) | (382,169,980) | (207,184,883) | (428,023,719) |
| **Net cash (used in)/generated from operating activities** | (2,539,461,503) | 1,042,116,429 | (5,226,600,900) | (2,264,449,285) | (240,155,540) |
| **Cash flows from investing activities:** | | | | | |
| Proceeds from sale of investments | 172,982,083 | 82,193,800 | 122,951,135 | — | 306,000,000 |
| Interest received | — | 815,989 | — | — | — |
| Net gain on disposal of available-for-sale financial assets | — | — | 262,597,073 | — | 6,905,230 |
| Dividends received | 30,776,241 | 15,588,134 | 12,876,203 | 15,705,259 | 17,728,369 |

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | unaudited | |
| Proceeds from/(payment for) disposal of property and equipment | 366,062 | 2,893,768 | (694,360) | 331,740 | 76,030 |
| Payment for acquisition of investments | (69,150,927) | (277,352,418) | (1,067,043,221) | (111,468,450) | (327,433,537) |
| Decrease due to cease of control over a subsidiary | — | (54,143) | — | — | — |
| Payment for the purchase of property, equipment and other long-term assets | (16,923,098) | (62,885,795) | (94,831,996) | (21,877,139) | (63,678,385) |
| **Net cash generated from/(used in) investing activities** | 118,050,361 | (238,800,665) | (764,145,166) | (117,308,590) | (60,402,293) |
| **Cash flows from financing activities:** | | | | | |
| Net proceeds from issue of share capital | — | — | 5,300,309,410 | — | — |
| Proceeds from short-term commercial papers issued | 3,000,000,000 | 6,300,000,000 | 4,100,000,000 | 3,300,000,000 | — |
| Cash received from medium-term notes issued | — | — | — | — | 3,315,600,000 |
| Capital contribution from non-controlling interests | — | — | — | — | 30,000,000 |
| Cash received from subordinated bonds issued | 3,000,000,000 | — | 2,000,000,000 | 2,000,000,000 | — |
| Cash received from other equity instruments issued | — | — | 1,000,000,000 | 1,000,000,000 | — |
| Cash received from beneficiary certificates issued | — | 100,000,000 | 3,470,000,000 | 1,570,000,000 | 4,619,200,877 |
| Cash received from other financing activities | 10,200,000 | — | — | — | — |
| Cash received from syndication loan | — | — | 1,623,400,000 | — | — |
| Repayment of syndication loan | — | — | — | — | (1,623,400,000) |
| Repayment of beneficiary certificates | — | — | (1,870,000,000) | (200,000,000) | (1,400,000,000) |
| Repayment of notes issued | — | — | — | — | (1,094,148,000) |
| Repayment of short-term commercial papers | (2,000,000,000) | (6,500,000,000) | (4,900,000,000) | (2,500,000,000) | — |
| Repayment of subordinated bonds | (2,300,000,000) | — | — | — | — |
| Cash paid for interest | (231,480,602) | (324,109,163) | (352,555,403) | (68,405,115) | (177,652,972) |
| Distribution paid to holders of other equity instruments | — | — | — | — | (57,000,000) |
| Cash paid relating to other financing activities | (3,986,187) | (3,365,919) | (11,202,668) | (3,567,791) | (26,168,957) |
| **Net cash generated from/(used in) financing activities** | 1,474,733,211 | (427,475,082) | 10,359,951,339 | 5,098,027,094 | 3,586,430,948 |
| Net (decrease)/increase in cash and cash equivalents | (946,677,931) | 375,840,682 | 4,369,205,273 | 2,716,269,219 | 3,285,873,115 |
| Cash and cash equivalents at the beginning of the year/period | 4,003,748,062 | 2,972,760,197 | 3,351,782,566 | 3,351,782,566 | 7,992,199,885 |
| Effect of changes in foreign exchange rate | (84,309,934) | 3,181,687 | 271,212,046 | (2,908,925) | 81,951,885 |
| Cash and cash equivalents at the end of the year/period | 2,972,760,197 | 3,351,782,566 | 7,992,199,885 | 6,065,142,860 | 11,360,024,885 |
| Net cash (used in)/generated from operating activities: | | | | | |
| Interest received | 261,396,915 | 414,595,519 | 884,266,743 | 412,673,398 | 944,964,453 |
| Interest paid | (376,204,228) | (413,891,687) | (619,332,884) | (303,723,957) | (373,370,899) |

## AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the audited consolidated financial statements of the Group for the year ended December 31, 2015 as extracted from the annual report of the Company for the year ended December 31, 2015:

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**
for the year ended 31 December 2015 (Expressed in Renminbi ("RMB"), unless otherwise stated)

| | Note | Year ended 31 December 2015 | 2014 |
|---|---|---|---|
| Revenue | | | |
| Fee and commission income | 6 | 6,587,816,025 | 4,151,886,773 |
| Interest income | 7 | 1,020,499,994 | 449,808,145 |
| Investment income | 8 | 1,853,336,139 | 1,526,769,247 |
| Total revenue | | 9,461,652,158 | 6,128,464,165 |
| Other income | 9 | 45,032,477 | 27,327,179 |
| Total revenue and other income | | 9,506,684,635 | 6,155,791,344 |
| Fee and commission expenses | 10 | 419,557,701 | 227,772,376 |
| Interest expenses | 11 | 1,094,781,365 | 742,081,785 |
| Staff costs | 12 | 4,050,985,852 | 2,555,522,127 |
| Depreciation and amortization expenses | 15 | 51,081,279 | 59,910,934 |
| Business tax and surcharges | | 406,279,919 | 247,998,331 |
| Other operating expenses | 16 | 963,710,851 | 852,802,787 |
| Provision for impairment losses | 17 | 3,375,632 | 31,619,896 |
| Total expenses | | 6,989,772,599 | 4,717,708,236 |
| Operating profit | | 2,516,912,036 | 1,438,083,108 |
| Share of profits of associates and joint ventures | | 103,665,364 | 67,773,612 |
| Profit before income tax | | 2,620,577,400 | 1,505,856,720 |
| Less: Income tax expense | 18 | 667,927,437 | 387,403,405 |
| Profit for the year | | 1,952,649,963 | 1,118,453,315 |
| Attributable to: | | | |
| Shareholders/equity holders of the Company | 19 | 1,952,649,963 | 1,118,453,315 |
| Holders of other equity instruments | | — | — |
| Basic and diluted earnings per share (in RMB per share) | 20 | 1.12 | 0.67 |

The notes on pages III-15 to III-96 form part of these financial statements.

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | 2015 | 2014 |
| Profit for the year | | 1,952,649,963 | 1,118,453,315 |
| Other comprehensive income for the year | | | |
| Items that may be reclassified to profit or loss in subsequent periods: | | | |
| Available-for-sale financial assets: | | | |
| — Changes in fair value | | 181,809,905 | 33,084,000 |
| — Income tax effect | | (14,787,481) | (4,043,748) |
| — Reclassified to profit or loss as investment income | | (117,110,671) | (19,906,591) |
| Exchange differences on translation of financial statements of overseas subsidiaries | | 149,525,466 | (2,156,843) |
| Total other comprehensive income for the year, net of tax | | 199,437,219 | 6,976,818 |
| Total comprehensive income for the year | | 2,152,087,182 | 1,125,430,133 |
| Attributable to: | | | |
| Shareholders/equity holders of the Company | | 2,152,087,182 | 1,125,430,133 |
| Holders of other equity instruments | | — | — |

The notes on pages III-15 to III-96 form part of these financial statements.

**Consolidated Statement of Financial Position**
as at 31 December 2015 (Expressed in RMB, unless otherwise stated)

| | | As at 31 December | |
|---|---|---|---|
| | Note | 2015 | 2014 |
| Non-current assets | | | |
| Property and equipment | 21 | 166,368,921 | 135,188,965 |
| Intangible assets | 22 | 1,410,550 | 2,640,794 |
| Interest in associates and joint ventures | 23 | 452,647,843 | 565,433,784 |
| Available-for-sale financial assets | 24 | 581,340,923 | 388,451,021 |
| Refundable deposits | 25 | 517,873,149 | 325,017,473 |
| Deferred tax assets | 26 | 680,324,436 | 484,277,325 |
| Other non-current assets | 27 | 59,654,549 | 58,058,293 |
| Total non-current assets | | 2,459,620,371 | 1,959,067,655 |
| Current assets | | | |
| Accounts receivable | 28 | 6,673,871,943 | 8,335,721,064 |
| Receivable from margin clients | 29 | 3,296,432,047 | 3,458,003,477 |
| Available-for-sale financial assets | 24 | 618,025,166 | 45,510,660 |
| Financial assets at fair value through profit or loss | 30 | 45,459,259,668 | 21,653,725,243 |
| Derivative financial assets | 31 | 736,244,468 | 732,808,142 |
| Financial assets held under resale agreements (“reverse REPOs”) | 32 | 1,556,613,621 | 1,621,848,431 |
| Interest receivable | 33 | 478,508,038 | 341,953,007 |
| Cash held on behalf of brokerage clients | 34 | 24,301,353,512 | 11,084,580,427 |
| Cash and bank balances | 35 | 8,434,085,678 | 3,418,342,380 |
| Other current assets | | 94,742,209 | 48,552,559 |
| Total current assets | | 91,649,136,350 | 50,741,045,390 |
| Total assets | | 94,108,756,721 | 52,700,113,045 |

The notes on pages III-15 to III-96 form part of these financial statements.

| | Note | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|---|
| Current liabilities | | | |
| Financial liabilities at fair value through profit or loss | 37 | 5,584,316,162 | 7,525,929,706 |
| Derivative financial liabilities | 31 | 1,071,011,928 | 737,805,695 |
| Accounts payable to brokerage clients | 38 | 25,218,051,446 | 15,054,264,345 |
| Placements from financial institutions | 39 | 1,636,815,800 | 1,529,569,000 |
| Short-term debt securities issued | 40 | 1,700,000,000 | 900,000,000 |
| Financial assets sold under repurchase agreements (“REPOs”) | 41 | 14,013,713,250 | 8,350,463,005 |
| Employee benefits payable | | 3,013,948,204 | 2,142,051,626 |
| Income tax payable | | 625,831,436 | 118,988,286 |
| Other current liabilities | 42 | 16,391,938,868 | 4,028,052,712 |
| Total current liabilities | | 69,255,627,094 | 40,387,124,375 |
| Net current assets | | 22,393,509,256 | 10,353,921,015 |
| Total assets less current liabilities | | 24,853,129,627 | 12,312,988,670 |
| Non-current liabilities | | | |
| Non-current employee benefits payable | | 671,839,359 | 269,154,233 |
| Placements from financial institutions | 39 | 1,623,400,000 | — |
| Long-term debt securities issued | 43 | 6,071,444,000 | 4,009,635,000 |
| Deferred tax liabilities | 26 | 31,685,238 | 28,913,466 |
| Other non-current liabilities | 44 | 12,760,096 | 13,040,255 |
| Total non-current liabilities | | 8,411,128,693 | 4,320,742,954 |
| Net assets | | 16,442,000,934 | 7,992,245,716 |
| Equity | | | |
| Share capital/paid-in capital | 45 | 2,306,669,000 | 1,667,473,000 |
| Reserves | 45 | 9,084,877,604 | 1,218,716,529 |
| Other equity instruments | 46 | 1,000,000,000 | — |
| Retained profits | | 4,050,454,330 | 5,106,056,187 |
| Total equity attributable to shareholders/equity holders of the Company and holders of other equity instruments | | 16,442,000,934 | 7,992,245,716 |

Approved and authorized for issue by the board of directors on 29 March 2016.

**Bi Mingjian**
*Chief Executive Officer*

**Xin Jie**
*Chief Financial Officer*

The notes on pages III-15 to III-96 form part of these financial statements.

**Consolidated Statement of Changes in Equity**
for the year ended 31 December 2015 (Expressed in RMB, unless otherwise stated)

| | Share capital/ paid-in capital | Other equity instruments | Reserves: Capital reserve | Reserves: Surplus reserve | Reserves: General reserve | Reserves: Investment revaluation reserve | Reserves: Foreign currency translation reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (Note 45(i)) | (Note 46) | (Note 45(ii)) | (Note 45(ii)) | (Note 45(ii)) | (Note 45(ii)) | (Note 45(ii)) | | |
| Balance at 1 January 2014 | 1,667,473,000 | — | 26,474,648 | 412,316,113 | 1,020,053,307 | 15,096,490 | (445,582,169) | 4,170,984,194 | 6,866,815,583 |
| Profit for the year | — | — | — | — | — | — | — | 1,118,453,315 | 1,118,453,315 |
| Other comprehensive income for the year | — | — | — | — | — | 9,133,661 | (2,156,843) | — | 6,976,818 |
| Total comprehensive income for the year | — | — | — | — | — | 9,133,661 | (2,156,843) | 1,118,453,315 | 1,125,430,133 |
| Appropriation to surplus reserve | — | — | — | 61,084,314 | — | — | — | (61,084,314) | — |
| Appropriation to general reserve | — | — | — | — | 122,297,008 | — | — | (122,297,008) | — |
| Balance at 31 December 2014 and 1 January 2015 | 1,667,473,000 | — | 26,474,648 | 473,400,427 | 1,142,350,315 | 24,230,151 | (447,739,012) | 5,106,056,187 | 7,992,245,716 |
| Profit for the year | — | — | — | — | — | — | — | 1,952,649,963 | 1,952,649,963 |
| Other comprehensive income for the year | — | — | — | — | — | 49,911,753 | 149,525,466 | — | 199,437,219 |
| Total comprehensive income for the year | — | — | — | — | — | 49,911,753 | 149,525,466 | 1,952,649,963 | 2,152,087,182 |
| Appropriation to surplus reserve | — | — | — | 152,845,657 | — | — | — | (152,845,657) | — |
| Appropriation to general reserve | — | — | — | — | 310,726,323 | — | — | (310,726,323) | — |
| Issuance of perpetual subordinated bonds | — | 1,000,000,000 | — | — | — | — | — | — | 1,000,000,000 |
| Issuance of H shares | 639,196,000 | — | 4,661,113,410 | — | — | — | — | — | 5,300,309,410 |
| Conversion to joint stock company with limited liability | — | — | 3,020,721,641 | (473,400,427) | — | (2,641,374) | — | (2,544,679,840) | — |
| Others | — | — | (2,641,374) | — | — | — | — | — | (2,641,374) |
| Balance at 31 December 2015 | 2,306,669,000 | 1,000,000,000 | 7,705,668,325 | 152,845,657 | 1,453,076,638 | 71,500,530 | (298,213,546) | 4,050,454,330 | 16,442,000,934 |

The notes on pages III-15 to III-96 form part of these financial statements.

**Consolidated Cash Flow Statement**
for the year ended 31 December 2015 (Expressed in RMB, unless otherwise stated)

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Profit before income tax | 2,620,577,400 | 1,505,856,720 |
| Adjustments for: | | |
| Interest expense on debt securities issued and other financing expenses | 440,534,761 | 318,406,982 |
| Depreciation and amortization expenses | 51,081,279 | 59,910,934 |
| Provision for impairment losses | 3,375,632 | 31,619,896 |
| Net loss on disposal of property, equipment and other assets | 6,166,012 | 1,060,481 |
| Fair value gain on financial instruments at fair value through profit or loss | (26,461,310) | (601,425,587) |
| Foreign exchange gain | (59,877,579) | (1,692,030) |
| Net gain on disposal of available-for-sale financial assets | (92,441,537) | (11,724,454) |
| Dividend income from available-for-sale financial assets, and share of profit of associates and joint ventures | (116,541,567) | (67,773,612) |
| Operating cash flows before movements in working capital | 2,826,413,091 | 1,234,239,330 |
| Decrease/(increase) in receivable from margin clients | 161,571,430 | (1,360,465,345) |
| Increase in accounts receivables, other receivables and prepayments | (853,351,799) | (4,908,219,515) |
| Decrease in reverse REPOs | 60,234,810 | 688,464,017 |
| Increase in financial instruments at fair value through profit or loss | (20,907,609,384) | (1,202,992,477) |
| Decrease/(increase) in available-for-sale financial assets | 16,841,306 | (6,996,207) |
| Increase in cash held on behalf of brokerage clients | (13,216,773,085) | (5,849,068,214) |
| (Increase)/decrease in restricted bank deposits | (375,325,979) | 56,777,738 |
| Increase in refundable deposits | (192,774,607) | (104,816,964) |
| Increase in accounts payables to brokerage clients | 10,163,787,101 | 9,348,074,677 |
| Increase in REPOs | 3,843,250,245 | 1,074,642,130 |
| Increase in other liabilities | 13,629,305,951 | 2,202,980,356 |
| Cash (used in)/generated from operating activities, before tax | (4,844,430,920) | 1,172,619,526 |
| Income taxes paid | (382,169,980) | (130,503,097) |
| Net cash (used in)/generated from operating activities | (5,226,600,900) | 1,042,116,429 |

The notes on pages III-15 to III-96 form part of these financial statements.

| | Note | Year ended 31 December 2015 | 2014 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Proceeds from sale of investments | | 122,951,135 | 82,193,800 |
| Interest received | | — | 815,989 |
| Net gain on disposal of available-for-sale financial assets | | 262,597,073 | 15,588,134 |
| Dividends received | | 12,876,203 | — |
| (Payment for)/proceeds from disposal of property and equipment | | (694,360) | 2,893,768 |
| Payment for acquisition of investments | | (1,067,043,221) | (277,352,418) |
| Decrease due to cease of control over a subsidiary | | — | (54,143) |
| Payment for the purchase of property, equipment and other long-term assets | | (94,831,996) | (62,885,795) |
| Net cash used in investing activities | | (764,145,166) | (238,800,665) |
| Cash flows from financing activities: | | | |
| Net proceeds from issue of share capital | | 5,300,309,410 | — |
| Cash received from short-term commercial papers issued | | 4,100,000,000 | 6,300,000,000 |
| Cash received from subordinated bonds issued | | 2,000,000,000 | — |
| Cash received from other equity instruments issued | | 1,000,000,000 | — |
| Cash received from beneficiary certificates issued | | 3,470,000,000 | 100,000,000 |
| Cash received from syndication loan | | 1,623,400,000 | — |
| Repayments of debt securities issued | | (6,770,000,000) | (6,500,000,000) |
| Cash paid for interest | | (352,555,403) | (324,109,163) |
| Cash paid relating to other financing activities | | (11,202,668) | (3,365,919) |
| Net cash generated from/(used in) financing activities | | 10,359,951,339 | (427,475,082) |
| Net increase in cash and cash equivalents | | 4,369,205,273 | 375,840,682 |
| Cash and cash equivalents at the beginning of the year | | 3,351,782,566 | 2,972,760,197 |
| Effect of changes in foreign exchange rate | | 271,212,046 | 3,181,687 |
| Cash and cash equivalents at the end of the year | 36 | 7,992,199,885 | 3,351,782,566 |
| Net cash (used in)/generated from operating activities including: | | | |
| Interest received | | 884,266,743 | 414,595,519 |
| Interest paid | | (619,332,884) | (413,891,687) |

The notes on pages III-15 to III-96 form part of these financial statements.

**Notes to the Financial Statements**
(Expressed in RMB, unless otherwise stated)

## 1 General Information

The Company was established on 31 July 1995 in the name of China International Capital Corporation Limited (中國國際金融有限公司) in the People's Republic of China ("**PRC**") as approved by the People's Bank of China ("**PBOC**").

Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability.

The Company was listed on the Main Board of the Stock Exchange of Hong Kong on 9 November 2015.

The registered address of the Company is the 27th and 28th Floor, China World Trade Center 2, 1 Jian Guo Men Wai Avenue, Beijing.

The Group principally engaged in investment banking business, equity sales and trading business, principal investment and trading business, wealth management business, investment management business and other business activities.

## 2 Significant Accounting Policies

### (a) Statement of compliance

The Group has prepared the financial statements, which comprise the consolidated statement of financial position of the Group as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "**financial statements**") in accordance with International Financial Reporting Standards ("**IFRSs**") and related interpretations issued by the International Accounting Standards Board (the "**IASB**") accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all applicable new and revised IFRSs in issue which are effective for the accounting year ended 31 December 2015 and relevant to the Group for the year. The Group has not adopted any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2015, except for its early adoption of Amendment to IAS 27 Separate Financial Statements. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2015 are set out in Note 5.

(b) **Basis of preparation of the financial statements**

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: financial derivatives, non-derivative financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets. The methods used to measure fair value are discussed further in Note 2(f) (ii).

The financial statements are presented in RMB, which is the functional currency of the Group. Each entity in the Group determines its own functional currency which is used to measure the items included in its financial statements. The Group translates the financial statements of subsidiaries from their respective functional currencies into the Group's functional currency if the subsidiaries' functional currencies are not the same as that of the Group.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

The accounting policies set out below have been consistently applied to all periods presented in the financial statements.

(c) **Basis of consolidation**

(i) *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as well as the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized gains arising from intra-group transactions are eliminated in full when preparing the financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity holders/shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between holders of non-controlling interests and the equity holders/shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(c) (iii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) *Associates and joint ventures*

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognized in the Group's profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognized in the Group's other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

In the Company's statement of financial position, investments in associates and joint ventures are accounted for under the equity method, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) **Foreign currency**

(i) *Translation of foreign currencies*

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the exchange rates that approximate the spot exchange rate ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the year. Exchange gains and losses are recognized in profit or loss, except those arising from foreign currency borrowing used to hedge a net investment in a foreign operation which are recognized in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RMB using the foreign exchange rates ruling at the dates the fair value was measured. The exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognized in other comprehensive income.

(ii) *Foreign operations*

The results of foreign operations are translated to RMB at the exchange rates approximating the spot exchange rate ruling at the transaction dates. Statement of financial position items are translated to RMB at the closing foreign exchange rates at the end of the year. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the foreign currency translation reserve.

Upon disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(e) **Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances, demand deposits with banks and other institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

(f) **Financial instruments**

(i) *Recognition and measurement of financial assets and liabilities*

A financial asset or financial liability is recognized in the statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorized as follows:

(1) Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or designated as at fair value through profit or loss.

Financial assets and financial liabilities are designated as at fair value through profit or loss upon initial recognition when:

— the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities.

If the financial assets or financial liabilities contain one or more embedded derivatives, they are designated as at fair value through profit or loss unless:

— the embedded derivatives does not significantly modify the cash flows that would otherwise be required under the contract; or

— it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivatives is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognized in profit or loss.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses (see Note 2(f) (iii)).

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

— those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or

— those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see Note 2(f) (iii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

— sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

— sales or reclassifications after the Group has collected substantially all of the asset's original principal; and

— sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(4) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend (see Note 2(o) (iv)). Impairment losses are recognized in profit or loss (see Note 2(f) (iii)).

Other fair value changes, other than impairment losses, are recognized in other comprehensive income and presented in the investment revaluation reserve within equity. When the investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

(5) Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) *Fair value measurement principles*

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the year. Where other pricing models are used, inputs are based on market data at the end of the year.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(iii) *Impairment of financial assets*

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to:

— significant financial difficulty of the borrower or issuer;

— a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— disappearance of an active market for financial assets because of financial difficulties of the issuer;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

(1) Loans and receivables

The Group assesses impairment losses on a collective basis. Loans and receivables are grouped for similar aging characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is an observable indication of a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

(2) Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

(3) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the investment revaluation reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognized in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

(iv) *Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

— the contractual rights to the cash flows from the financial asset expire; or

— the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vi) *Equity instruments*

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Group. Considerations received from issuance of equity instruments net of transaction costs are recognized in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

(vii) *Derivative financial instruments*

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedging instrument are recognized in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

(g) **Financial assets held under resale agreements and financial assets sold under repurchase agreements**

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statement of financial position at amortized cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(h) **Property and equipment**

(i) *Recognition and measurement*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses (Note 2(k)). Property and equipment under construction is stated at cost less impairment losses (Note 2(k)).

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalized as the cost of construction in progress.

(ii) *Subsequent costs*

The subsequent costs including the cost of replacing part of an item of property or equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) *Depreciation*

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of property and equipment. Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns, each part is depreciated separately. The estimated useful lives and the rate of net residual values of each class of property and equipment are as follows:

| | **Estimated useful life** | **Estimated rate of residual value** |
|---|---|---|
| Land and building | 20 years | 5% |
| Office equipment | 2 - 5 years | 0% - 10% |
| Furniture and fixtures | 3 - 5 years | 0% - 10% |
| Motor vehicles | 3 years | 0% - 10% |
| Leasehold improvements | Lease term | 0% |

No depreciation is provided in respect of property and equipment under construction.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) *Gains or losses from the retirement or disposal*

Gains or losses arising from the retirement or disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss on the date of disposal or retirement.

(i) **Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Assets acquired under finance lease*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property and equipment and the corresponding liabilities, net of finance charges, are recorded as long-term finance leases payable. Depreciation is provided at rates which write off the cost over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) **Intangible assets**

Intangible assets are stated in the statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (Note 2(k)).

Amortization of an intangible asset with finite useful life is charged to profit or loss on a straight-line basis over its estimated useful life. Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

(k) **Impairment of non-financial assets**

Internal and external sources of information are reviewed at the end of year to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

— property and equipment (other than properties carried at revalued amounts);

— intangible assets;

— investments in subsidiaries, associates and joint ventures.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(l) **Provisions and contingent liabilities**

A provision is recognized for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arsing as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(m) **Employee benefits**

(i) *Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations in the PRC, the Group participated in the social pension schemes for employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amount stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

(ii) *Other long-term employee benefits*

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit of loss in the period in which they arise.

(iii) *Termination benefits*

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

(n) **Offsetting**

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(o) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) *Underwriting, sponsoring fees, financial advisory fees and investment advisory fees*

Underwriting, sponsoring fees, financial advisory fees and investment advisory fees are recognized in profit or loss when the corresponding service is provided.

(ii) *Asset management fees*

Asset management fees are recognized when the Company is entitled to receive the fees according to the asset management agreement.

(iii) *Brokerage commission income*

Brokerage commission income includes commission income from brokerage trading of securities and leasing out trading seats. Commission income from brokerage trading of securities is recognized on the trade date. Commission income from leasing out trading seats is recognized on an accrual basis.

(iv) *Dividend income*

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established. Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(v) *Interest income*

Interest income is recognized in profit or loss by using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the year. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation of the effective interest rate includes all fees paid or received between parties to the contract, transaction costs, and all other discounts or premiums that are an integral part of the effective interest rate.

(p) **Expenses recognition**

(i) *Interest expenses*

Interest expenses are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) *Fee and commission expenses*

Fee and commission expenses are charged to profit or loss on an accrual basis.

(iii) *Other expenses*

Other expenses are recognized on an accrual basis.

(q) **Income tax**

Income tax expense comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss related to the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of year and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to settle the current tax assets and the current tax liabilities on a net basis or realize the assets and settle the liabilities simultaneously.

(r) **Dividends appropriated to investors**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of the year are not recognized as a liability at the end of the year but disclosed separately in the notes to the financial statements.

(s) **Government grants**

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) **Related parties**

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(3) Both entities are joint ventures of the same third party;

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(6) The entity is controlled or jointly controlled by a person identified in (i);

(7) A person identified in (i) (1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various business lines and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of clients, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(v) **Fiduciary activities**

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings in the course of carrying out such fiduciary activities are not included in the consolidated statement of financial position as the risks and rewards of the assets reside with customers.

**3 Significant Accounting Judgement and Estimates**

(a) **Fair value of financial instruments**

As indicated in Note 2(f) (i), financial instruments at fair value through profit or loss and available-for-sale investments are measured at fair value at the end of the year and it is usually possible to determine their fair values within a reasonable range of estimates.

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2(f) (ii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) **Financial asset and liability classification**

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "held for trading", the Group has determined that it meets the definition of financial assets and liabilities held for trading set out in Note 2(f) (i).

- In designating financial assets or liabilities as at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in Note 2(f)(i).

- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intent and ability to hold the assets until their maturity date as required by accounting policy set out in Note 2(f) (i). In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements.

(c) **Impairment of available-for-sale investments**

For available-for-sale investments, a significant or prolonged decline in fair value is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as in the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial statements regarding the investee. The Group considers a decline to be significant if the fair value of the investment drops below its initial cost by 20% or more and to be prolonged if the fair value of the investment remains below its cost for one year or longer.

(d) **Impairment of accounts receivables and receivables from margin clients**

Accounts receivables and receivables from margin clients that are measured at amortized cost are reviewed at the end of year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flows of an individual debtor. If there is an indication that there has been a favorable change in the factors used to determine the provision for impairment, the impairment loss recognized in prior years is reversed.

(e) **Impairment of non-financial assets**

Non-financial assets are reviewed at the end of year to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (or a group of assets) is the greater of its fair value less costs of disposal and value in use. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(f) **Income tax**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all tax legislations. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(g) **Determination of consolidation scope**

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset management schemes where the Group involves as the manager, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the Group is a principal. The asset management scheme shall be consolidated if the Group acts in the role of principal.

## 4 Taxation

(a) **Business tax and surcharges**

The major type of turnover tax derived from services provided by the Company and its domestic subsidiaries is business tax. The business tax rate applicable to the Company and its domestic subsidiaries is 5%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of business tax respectively.

(b) **Value-added tax ("VAT") and surcharges**

The advisory and consulting services provided by the Company are subject to VAT since December 2015. The applicable tax rate for advisory and consulting services income is 6%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of VAT respectively.

(c) **Income tax**

The income tax rate applicable to the Company and its domestic subsidiaries is 25%.

The income tax rate applicable to the subsidiaries in Hong Kong is 16.5%. Taxes of other overseas subsidiaries are charged at the relevant local rates.

**5 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the year ended 31 December 2015**

Up to 31 December 2015, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| IFRS 9, Financial instruments | 1 January, 2018 |
| IFRS 15, Revenue from contracts with customers | 1 January, 2018 |

**IFRS 9, Financial instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the recognition in other comprehensive income of 'own credit risk' related gains and losses that are part of the fair value changes of financial liabilities designated as measured at fair value through profit or loss. In November 2013 the new requirements for general hedge accounting were added to IFRS 9. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets, and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The Group is in the process of assessing the potential impact on the financial statements resulting from the adoption of IFRS 9. So far it has concluded that the adoption of IFRS 9 may have an impact on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Until a detailed review of the impact of adopting IFRS 9 is performed, the Group cannot provide a reasonable estimate that quantifies the impact on its financial statements nor can it yet conclude whether that impact will be significant or not.

**IFRS 15, Revenue from contracts with customers**

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group is in the process of assessing the potential impact on the financial statements resulting from the application of IFRS 15. So far it has concluded that the adoption of IFRS 15 is unlikely to have a significant impact on the Group's results of operations and financial position.

## 6 Fee and Commission Income

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Brokerage commission income | 2,734,074,667 | 1,408,903,412 |
| Underwriting and sponsoring fees | 2,196,579,154 | 1,753,050,090 |
| Financial advisory fees | 537,545,484 | 208,532,694 |
| Investment advisory fees | 210,682,234 | 258,182,062 |
| Asset management fees | 908,934,486 | 523,218,515 |
| Total | 6,587,816,025 | 4,151,886,773 |

## 7 Interest Income

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Interest income from financial institutions | 569,185,640 | 181,484,236 |
| Interest income from margin financing and securities lending | 381,020,021 | 181,105,836 |
| Interest income from reverse REPOs | 67,991,501 | 86,302,720 |
| Others | 2,302,832 | 915,353 |
| Total interest income on financial assets not at fair value through profit or loss | 1,020,499,994 | 449,808,145 |

## 8 Investment Income

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Net gains from disposal of available-for-sale financial assets | 104,234,468 | 19,906,591 |
| Dividend income from available-for-sale financial assets | 12,876,203 | — |
| Net gains from financial instruments at fair value through profit or loss | 3,326,117,143 | 1,537,099,716 |
| Net losses from derivative financial instruments | (1,589,891,675) | (30,237,060) |
| Total | 1,853,336,139 | 1,526,769,247 |

## 9 Other Income

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Tax refunds | 8,267,386 | 7,053,510 |
| Government grants | 19,671,416 | 14,186,628 |
| Others | 17,093,675 | 6,087,041 |
| Total | 45,032,477 | 27,327,179 |

The government grants were received by the Company and its subsidiaries from the local government where they reside with no condition attached.

## 10 Fee and Commission Expenses

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Brokerage expenses | 258,174,146 | 104,800,872 |
| Underwriting and sponsoring expenses | 83,702,460 | 68,824,565 |
| Other fee and commission expenses | 77,681,095 | 54,146,939 |
| Total | 419,557,701 | 227,772,376 |

## 11 Interest Expenses

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Interest expenses of accounts payable to brokerage clients | 172,567,808 | 42,984,632 |
| Interest expenses on REPOs | 345,510,698 | 294,145,990 |
| Interest expenses on placements from financial institutions | 117,524,392 | 78,956,656 |
| Interest expenses on short-term debt securities issued | 60,735,099 | 74,552,995 |
| Interest expenses on notes payable | 65,462,363 | 64,630,250 |
| Interest expenses on subordinated bonds | 242,209,073 | 180,000,000 |
| Interest expenses on beneficiary certificates | 49,507,735 | 39,726 |
| Interest expenses on syndication loan | 20,158,500 | — |
| Others | 21,105,697 | 6,771,536 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 1,094,781,365 | 742,081,785 |

## 12 Staff Costs

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Salaries, bonus and allowance | 3,862,059,045 | 2,398,637,658 |
| Retirement scheme contributions | 74,384,167 | 58,465,905 |
| Other social welfare | 71,370,036 | 58,669,859 |
| Other benefits | 43,172,604 | 39,748,705 |
| Total | 4,050,985,852 | 2,555,522,127 |

Salary, bonus and allowance for the year ended 31 December 2015 includes staff long-term incentive compensation expenses of RMB600 million.

The Group is required to participate in pension schemes in the PRC, Hong Kong and other jurisdictions whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the annual contributions described above.

## 13 Directors' and Supervisors' Remuneration

Directors' and supervisors' remuneration is as follows:

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| Name | Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total remuneration |
| Executive Director | | | | | |
| Bi Mingjian (Note 2) | — | 1,249,419 | 3,448,055 | 34,095 | 4,731,569 |
| Non-executive Director | | | | | |
| Ding Xuedong (Note 3&4) | — | — | — | — | — |
| Zhao Haiying (Note 4) | — | — | — | — | — |
| David Bonderman | 37,730 | — | — | — | 37,730 |
| Liu Haifeng David (Note 5) | — | — | — | — | — |
| Shi Jun (Note 6) | 37,730 | — | — | — | 37,730 |
| Johnson Cha | 37,730 | — | — | — | 37,730 |
| Teh Kok Peng (Note 7) | 115,502 | — | — | — | 115,502 |
| Henry Kravis (Note 8) | 25,278 | — | — | — | 25,278 |
| Independent Non-executive Director | | | | | |
| Edwin Roca Lim (Note 9) | 312,645 | — | — | — | 312,645 |
| Cao Tong (Note 9) | 301,445 | — | — | — | 301,445 |
| Siu Wai Keung (Note 9) | 316,045 | — | — | — | 316,045 |
| Ben Shenglin (Note 9) | 312,645 | — | — | — | 312,645 |
| Supervisor | | | | | |
| Han Weiqiang (Note 10&11) | — | — | — | — | — |
| Liu Haoling (Note 10&12) | — | — | — | — | — |
| Jin Lizuo (Note 10) | 155,419 | — | — | — | 155,419 |
| Total | 1,652,169 | 1,249,419 | 3,448,055 | 34,095 | 6,383,738 |

| | Year ended 31 December 2014 | | | | |
|---|---|---|---|---|---|
| Name | Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total remuneration |
| Jin Liqun (Note 13) | — | 1,436,860 | — | — | 1,436,860 |
| Ding Xuedong (Note 3&4) | — | — | — | — | — |
| Zhao Haiying (Note 4) | — | — | — | — | — |
| Teh Kok Peng | 115,095 | — | — | — | 115,095 |
| David Bonderman | 115,095 | — | — | — | 115,095 |
| Henry Kravis | 115,095 | — | — | — | 115,095 |
| Johnson Cha | 115,095 | — | — | — | 115,095 |
| Shi Jun (Note 6) | 89,817 | — | — | — | 89,817 |
| Liu Xinlai (Note 14) | 25,278 | — | — | — | 25,278 |
| Total | 575,475 | 1,436,860 | — | — | 2,012,335 |

*Note 1:* The amounts disclosed above in respect of the remuneration of directors and supervisors were net of tax.

*Note 2:* Appointed as executive director in May 2015. The remuneration of Mr. Bi Mingjian during the year includes the compensation for the services provided by Mr. Bi Mingjian acting as the Chief Executive Officer of the Company.

*Note 3:* Appointed as Chairman of the Board in October 2014.

*Note 4:* The director's fees of Mr. Ding Xuedong and Ms. Zhao Haiying were waived with their authorization.

*Note 5:* Appointed as non-executive director in February 2015. The director's fees of Mr. Liu Haifeng David were waived with his authorization.

*Note 6:* Mr. Shi Jun was appointed as director in December 2013 and his appointment became effective in January 2014. The Company paid all the director's fees and the fees for directors' meetings of Mr. Shi Jun to the Labour Union of China National Investment & Guaranty Co., Ltd. during the year.

*Note 7:* Resigned as director in July 2015.

*Note 8:* Resigned as director in April 2015.

*Note 9:* Appointed as independent non-executive director in May 2015.

*Note 10:* Appointed as supervisor in May 2015.

*Note 11:* The remuneration of Mr. Han Weiqiang with the Company in accordance with the employee remuneration system is not included.

*Note 12:* The supervisor's fees of Mr. Liu Haoling were waived with his authorization.

*Note 13:* Mr. Jin Liqun was appointed as Chairman of the Board in May 2013 and resigned in October 2014.

*Note 14:* Mr. Liu Xinlai resigned as director in December 2013 and his resignation became effective in January 2014. The director's fees and the fees for directors' meetings of Mr. Liu Xinlai were paid by the Company to the Labour Union of China National Investment & Guaranty Co., Ltd.

There were no amounts paid during the year to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Group, or as inducement to join. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

## 14 Individuals With Highest Emoluments

Of the five individuals with the highest emoluments, none are directors or supervisors whose emoluments are disclosed in Note 13. The aggregate of the emoluments are as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Salaries and other emoluments | 8,063,952 | 8,270,699 |
| Discretionary bonuses | 72,919,770 | 61,269,706 |
| Retirement scheme contributions | 231,799 | 752,803 |
| Total | 81,215,521 | 70,293,208 |

The emoluments of these individuals with the highest emoluments are within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2015 | 2014 |
| RMB12,000,001 to RMB12,500,000 | — | 1 |
| RMB13,500,001 to RMB14,000,000 | — | 2 |
| RMB14,000,001 to RMB14,500,000 | 2 | 1 |
| RMB15,500,001 to RMB16,000,000 | 1 | — |
| RMB16,000,001 to RMB16,500,000 | — | 1 |
| RMB17,000,001 to RMB17,500,000 | 1 | — |
| RMB19,500,001 to RMB20,000,000 | 1 | — |

No emoluments are paid or payable to these individuals in connection with their retirement from employment or as compensation for loss of office or inducement to join during the year.

## 15 Depreciation and Amortization Expenses

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Depreciation of property and equipment | 49,826,580 | 57,687,793 |
| Amortization of intangible assets | 1,254,699 | 2,223,141 |
| Total | 51,081,279 | 59,910,934 |

## 16 Other Operating Expenses

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Operating lease charges in respect of property and equipment | 234,737,005 | 222,419,466 |
| Business development expenses | 316,058,418 | 279,069,711 |
| Information technology related expenses | 101,526,428 | 95,501,988 |
| Travelling and transportation expenses | 115,066,336 | 76,125,990 |
| Professional service fees | 109,340,395 | 79,787,627 |
| Utilities and maintenance | 40,409,779 | 34,879,576 |
| Securities Investor Protection Fund | 30,242,554 | 17,256,813 |
| Auditors' remuneration | 10,484,308 | 3,365,673 |
| Others | 5,845,628 | 44,395,943 |
| Total | 963,710,851 | 852,802,787 |

## 17 Provision for Impairment Losses

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| (Reversal of)/provision for impairment losses against accounts receivable | (8,081,121) | 31,619,896 |
| Provision for impairment losses against receivable from margin clients | 5,777,853 | — |
| Provision for impairment losses against financial assets held under resale agreements | 5,678,900 | — |
| Total provision | 3,375,632 | 31,619,896 |

## 18 Income Tax Expense

**(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:**

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Current tax | | |
| — PRC income tax | 819,600,714 | 156,070,645 |
| — Hong Kong profits tax | 50,016,094 | 65,467,446 |
| Subtotal | 869,616,808 | 221,538,091 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (201,689,371) | 165,865,314 |
| Total | 667,927,437 | 387,403,405 |

(b) **Reconciliation between income tax expense and accounting profit at applicable tax rates:**

The income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China (for the purpose of this report, Mainland China excludes Hong Kong, Macau and Taiwan) during the year. Taxes on profits assessable outside Mainland China have been calculated at the applicable rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on the existing legislation, interpretations and practices. A reconciliation of income tax expenses calculated by applying the PRC statutory income tax rate to profit before tax to the income tax expense in the consolidated statement of profit or loss is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Profit before income tax | 2,620,577,400 | 1,505,856,720 |
| Income tax calculated at the PRC statutory income tax rate | 655,144,350 | 376,464,180 |
| Non-deductible expenses | 38,800,568 | 29,288,806 |
| Non-taxable interest income | (19,009,851) | (8,592,545) |
| Non-taxable dividends income | (3,219,051) | — |
| Effect of different applicable tax rates of the subsidiaries | (47,710,242) | (92,729,201) |
| Tax effect of unused tax losses not recognized | 40,300,144 | 87,797,081 |
| Others | 3,621,519 | (4,824,916) |
| Total income tax expense | 667,927,437 | 387,403,405 |

## 19 Profit Attributable to Shareholders/Equity Holders of the Company and Holders of Other Equity Instruments

The consolidated profit attributable to shareholders/equity holders of the Company and holders of other equity instruments includes a profit of RMB610,843,137 and RMB1,528,456,576 which have been dealt with in the financial statements of the Company in 2014 and 2015, respectively.

## 20 Basic and Diluted Earnings Per Share

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Profit attributable to shareholders/equity holders of the Company and holders of other equity instruments (RMB) | 1,952,649,963 | 1,118,453,315 |
| Accumulated interest for holders of perpetual subordinated bonds | (33,887,671) | — |
| Weighted average number of ordinary shares in issue | 1,720,739,333 | 1,667,473,000 |
| Basic earnings per share (in RMB per share) | 1.12 | 0.67 |

*Note:* Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability and issued 1,667,473,000 ordinary shares at par value of RMB1 each. Basic earnings per share have been computed as if the conversion had been effective on 1 January 2014.

There were no dilutive potential ordinary shares during the year, and therefore, diluted earnings per share are the same as the basic earnings per share.

## 21 Property and Equipment

| | Land and buildings | Office equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2015 | — | 555,797,490 | 46,264,853 | 1,366,588 | 449,540,286 | 1,052,969,217 |
| Acquisitions | 4,294,530 | 13,424,558 | 21,846 | — | 2,138,086 | 19,879,020 |
| Additions | — | 49,937,043 | 2,171,988 | — | 21,293,057 | 73,402,088 |
| Disposal | — | (38,508,146) | (1,140,719) | — | (18,343,012) | (57,991,877) |
| Effect of changes in foreign exchange rate | — | 4,643,458 | 532,592 | — | 3,373,315 | 8,549,365 |
| At 31 December 2015 | 4,294,530 | 585,294,403 | 47,850,560 | 1,366,588 | 458,001,732 | 1,096,807,813 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2015 | — | (464,184,162) | (42,245,203) | (878,109) | (410,472,778) | (917,780,252) |
| Acquisitions | (712,880) | (6,654,264) | (17,315) | — | (336,125) | (7,720,584) |
| Additions | (155,342) | (31,481,312) | (623,156) | (150,780) | (17,415,990) | (49,826,580) |
| Disposals | — | 34,462,923 | 637,812 | — | 17,419,491 | 52,520,226 |
| Effect of changes in foreign exchange rate | — | (4,008,783) | (533,671) | — | (3,089,248) | (7,631,702) |
| At 31 December 2015 | (868,222) | (471,865,598) | (42,781,533) | (1,028,889) | (413,894,650) | (930,438,892) |
| **Carrying amount** | | | | | | |
| At 31 December 2015 | 3,426,308 | 113,428,805 | 5,069,027 | 337,699 | 44,107,082 | 166,368,921 |
| At 31 December 2014 | — | 91,613,328 | 4,019,650 | 488,479 | 39,067,508 | 135,188,965 |

| | Office equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | 539,018,175 | 46,197,946 | 863,988 | 440,125,196 | 1,026,205,305 |
| Additions | 45,775,961 | 345,686 | 502,600 | 14,126,809 | 60,751,056 |
| Disposal | (28,326,606) | (147,692) | — | (3,378,978) | (31,853,276) |
| Effect of changes in foreign exchange rate | (670,040) | (131,087) | — | (1,332,741) | (2,133,868) |
| At 31 December 2014 | 555,797,490 | 46,264,853 | 1,366,588 | 449,540,286 | 1,052,969,217 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2014 | (457,477,838) | (40,315,428) | (777,589) | (391,350,211) | (889,921,066) |
| Additions | (32,103,844) | (2,191,401) | (100,520) | (23,292,028) | (57,687,793) |
| Disposal | 24,747,462 | 132,923 | — | 3,252,302 | 28,132,687 |
| Effect of changes in foreign exchange rate | 650,058 | 128,703 | — | 917,159 | 1,695,920 |
| At 31 December 2014 | (464,184,162) | (42,245,203) | (878,109) | (410,472,778) | (917,780,252) |
| **Carrying amount** | | | | | |
| At 31 December 2014 | 91,613,328 | 4,019,650 | 488,479 | 39,067,508 | 135,188,965 |
| At 31 December 2013 | 81,540,337 | 5,882,518 | 86,399 | 48,774,985 | 136,284,239 |

## 22 Intangible Assets

| | Securities trading seat rights | Others | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2015 | 41,268,843 | 886,715 | 42,155,558 |
| Effect of changes in foreign exchange rate | — | 24,455 | 24,455 |
| At 31 December 2015 | 41,268,843 | 911,170 | 42,180,013 |
| **Accumulated amortization** | | | |
| At 1 January 2015 | (39,085,799) | (428,965) | (39,514,764) |
| Additions | (1,210,000) | (44,699) | (1,254,699) |
| At 31 December 2015 | (40,295,799) | (473,664) | (40,769,463) |
| **Carrying amount** | | | |
| At 31 December 2015 | 973,044 | 437,506 | 1,410,550 |
| At 31 December 2014 | 2,183,044 | 457,750 | 2,640,794 |
| **Cost** | | | |
| At 1 January 2014 | 41,268,843 | 885,395 | 42,154,238 |
| Effect of changes in foreign exchange rate | — | 1,320 | 1,320 |
| At 31 December 2014 | 41,268,843 | 886,715 | 42,155,558 |
| **Accumulated amortization** | | | |
| At 1 January 2014 | (36,911,886) | (379,737) | (37,291,623) |
| Additions | (2,173,913) | (49,228) | (2,223,141) |
| At 31 December 2014 | (39,085,799) | (428,965) | (39,514,764) |
| **Carrying amount** | | | |
| At 31 December 2014 | 2,183,044 | 457,750 | 2,640,794 |
| At 31 December 2013 | 4,356,957 | 505,658 | 4,862,615 |

## 23 Interest in Associates and Joint Ventures

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Share of net assets | | |
| — Associates | 386,124,611 | 536,464,839 |
| — Joint ventures | 66,523,232 | 28,968,945 |
| Total | 452,647,843 | 565,433,784 |

The following list contains only the particulars of material associates and joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

| | | | | Proportion of ownership Interest | | | |
|---|---|---|---|---|---|---|---|
| **Name of associate** | **Form of business structure** | **Place of incorporation operation** | **Particulars of issued and paid up capital** | **Group's effective interest** | **Held by the Company** | **Held by a subsidiary** | **Principal activity** |
| Zheshang Jinhui Trust Co., Ltd. ("Zheshang Jinhui") | Incorporated | Hangzhou, PRC | RMB500,000,000 | 35% | 35% | — | Trust business |
| CMI Capital Limited ("CMI") | Incorporated | Hong Kong | HKD232,050,000 | 40% | — | 40% | Investment advisory business |

The summary financial information of the Group's material associates and the reconciliation between the financial information of these associates and their carrying amounts in the Group's financial statements are disclosed below:

(a) **Zheshang Jinhui**

| | As at 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Financial information of the associate | | |
| — Assets | 886,852,396 | 826,493,823 |
| — Liabilities | 140,975,904 | 144,678,406 |
| — Net assets | 745,876,492 | 681,815,417 |
| — Operating income | 235,721,224 | 274,632,699 |
| — Net profit | 64,083,509 | 77,921,947 |
| Reconciled to the Group's interests in the associate: | | |
| Gross amounts of net assets of the associate | 745,876,492 | 681,815,417 |
| Group's effective interest | 35% | 35% |
| Group's share of net assets of the associate | 261,056,772 | 238,635,396 |
| Carrying amount in the consolidated financial statements | 261,056,772 | 238,635,396 |

(b) **CMI**

| | As at 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Financial information of the associate | | |
| — Assets | 192,141,547 | 182,859,373 |
| — Liabilities | 289,195 | 431,163 |
| — Net assets | 191,852,352 | 182,428,210 |
| — Operating income | 247,672 | 3,250 |
| — Net loss | (2,137,755) | (392,413) |
| Reconciled to the Group's interests in the associate: | | |
| Gross amounts of net assets of the associate | 191,852,352 | 182,428,210 |
| Group's effective interest | 40% | 40% |
| Group's share of net assets of the associate | 76,740,941 | 72,971,284 |
| Carrying amount in the consolidated financial statements | 76,740,941 | 72,971,284 |

(c) **Aggregate information of individually immaterial associates and joint ventures:**

| | As at 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Aggregate carrying amount of individually immaterial associates and joint ventures in the consolidated financial statements | 114,850,130 | 253,827,104 |
| Aggregate amounts of the Group's share of profit or loss and other comprehensive income of those associates and joint ventures | | |
| — Profit for the year | 82,062,187 | 40,658,631 |
| — Total comprehensive income | 82,062,187 | 40,658,631 |

**24 Available-For-Sale Financial Assets**

| | As at 31 December | |
|---|---|---|
| **Non-current** | **2015** | **2014** |
| At fair value: | | |
| — Equity investments | 581,340,923 | 388,451,021 |
| Analyzed into: | | |
| Unlisted | 581,340,923 | 388,451,021 |

| Current | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| At fair value: | | |
| — Equity investments | 617,536,584 | 24,693,897 |
| — Funds and other investments | 488,582 | 20,816,763 |
| Total | 618,025,166 | 45,510,660 |
| Analyzed into: | | |
| Listed, outside Hong Kong | 20,621,166 | 45,510,660 |
| Unlisted | 597,404,000 | — |
| Total | 618,025,166 | 45,510,660 |

## 25 Refundable Deposits

| Current | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|
| Self-owned refundable deposits | 460,331,605 | 309,110,919 |
| Refundable deposits held on behalf of clients | 57,541,544 | 15,906,554 |
| Total | 517,873,149 | 325,017,473 |

Refundable deposits are mainly placed at China Securities Depository and Clearing Corporation Limited, futures companies, China Securities Finance Corporation Limited, Shanghai Clearing House, Hong Kong Securities Clearing Company Nominees Limited and Hong Kong Futures Exchange Clearing Corporation Limited.

## 26 Deferred Tax Assets/(Liabilities)

### (a) Deferred tax assets and liabilities recognized

The components of deferred tax assets/(liabilities) recognized in the consolidated statement of financial position and the movement during the year are as follows:

| | 1 January 2015 | Credited/ (charged) to profit or loss | Charged to equity | Addition from acquisition of a subsidiary | Exchange differences in translation of financial statements of overseas subsidiaries | 31 December 2015 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
| Deferred tax arising from: | | | | | | | | |
| Staff cost | 455,636,756 | 194,485,730 | — | 1,770,795 | 1,453,938 | 653,347,219 | 653,347,219 | — |
| Deductible tax loss | 41,787,884 | (4,035,849) | — | — | 2,351,901 | 40,103,936 | 40,103,936 | — |
| Depreciation and amortization | 6,154,449 | (532,454) | — | — | 347,615 | 5,969,610 | 5,969,610 | — |
| Changes in fair values of financial instruments at fair value through profit or loss | (45,954,347) | (43,036,512) | — | — | — | (88,990,859) | — | (88,990,859) |
| Changes in fair values of available- for-sale financial assets | (7,720,487) | — | (14,787,481) | — | — | (22,507,968) | — | (22,507,968) |
| Others | 5,459,604 | 54,808,456 | — | 121,042 | 328,158 | 60,717,260 | 61,334,991 | (617,731) |
| Subtotal | 455,363,859 | 201,689,371 | (14,787,481) | 1,891,837 | 4,481,612 | 648,639,198 | 760,755,756 | (112,116,558) |
| Set off | | | | | | | (80,431,320) | 80,431,320 |
| Deferred tax assets/(liabilities) on consolidated statement of financial position | | | | | | | 680,324,436 | (31,685,238) |

| | 1 January 2014 | Credited/ (charged) to profit or loss | Charged to equity | Exchange differences in translation of financial statements of overseas subsidiaries | 31 December 2014 | | |
|---|---|---|---|---|---|---|---|
| | | | | | Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
| Deferred tax arising from: | | | | | | | |
| Staff cost | 453,351,318 | 1,688,241 | — | 597,197 | 455,636,756 | 455,636,756 | — |
| Deductible tax loss | 128,048,520 | (86,439,379) | — | 178,743 | 41,787,884 | 41,787,884 | — |
| Depreciation and amortization | 6,334,712 | (198,601) | — | 18,338 | 6,154,449 | 6,154,449 | — |
| Changes in fair values of financial instruments at fair value through profit or loss | 35,983,859 | (81,938,206) | — | — | (45,954,347) | — | (45,954,347) |
| Changes in fair values of available-for-sale financial assets | (3,676,739) | — | (4,043,748) | — | (7,720,487) | — | (7,720,487) |
| Others | 4,447,885 | 1,022,631 | — | (10,912) | 5,459,604 | 28,419,008 | (22,959,404) |
| Subtotal | 624,489,555 | (165,865,314) | (4,043,748) | 783,366 | 455,363,859 | 531,998,097 | (76,634,238) |
| Set off | | | | | | (47,720,772) | 47,720,772 |
| Deferred tax assets/(liabilities) on consolidated statement of financial position | | | | | | 484,277,325 | (28,913,466) |

## (b) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(q), the Group has not recognized deferred tax assets in respect of cumulative tax losses amounted to RMB274 million and RMB239 million at 31 December 2015 and 2014, respectively.

Deferred tax assets not recognized in respect of cumulative tax losses are mainly attributable to certain overseas subsidiaries of the Group which were set up to strengthen the Group's international franchise and cross-border service capabilities. Tax losses are recorded by these overseas subsidiaries as a result of the large amount of business expenditures in connection with their establishments and operations in previous years.

Deferred tax asset arising from unused tax losses is recognized only to the extent that an entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses can be utilized by the entity, when the entity has a history of recent losses. The directors of the Company review the financial performance of these overseas subsidiaries at the end of year to determine whether there is sufficient taxable profit to be available against the unused tax losses, and they are of the opinion that it is probable that sufficient future taxable profits against which the losses can be utilized will not be available in these overseas entities in the foreseeable future, given that further expenditures of these overseas subsidiaries are considered necessary for expanding the Group's overseas operations based on its business strategies.

## 27 Other Non-Current Assets

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Rental deposits | 54,289,749 | 54,118,534 |
| Others | 5,364,800 | 3,939,759 |
| Total | 59,654,549 | 58,058,293 |

## 28 Accounts Receivable

### (a) Analysed by nature:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Trade receivable | 5,071,528,802 | 7,219,375,203 |
| Underwriting and advisory fees receivable | 841,560,561 | 772,007,054 |
| Asset management fees receivable | 261,351,438 | 162,636,256 |
| Trading seat rental fees receivable | 137,649,542 | 79,759,881 |
| Others | 380,270,140 | 127,363,421 |
| Less: provision for impairment losses | (18,488,540) | (25,420,751) |
| Total | 6,673,871,943 | 8,335,721,064 |

### (b) Analysed by aging:

| | As at 31 December 2015 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 6,417,571,780 | 95.89% | — | — |
| 1 - 2 years (inclusive) | 195,734,655 | 2.92% | (3,399,300) | 18.39% |
| 2 - 3 years (inclusive) | 60,652,516 | 0.91% | (15,069,240) | 81.51% |
| More than 3 years | 18,401,532 | 0.28% | (20,000) | 0.10% |
| Total | 6,692,360,483 | 100.00% | (18,488,540) | 100.00% |

| | As at 31 December 2014 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 8,209,482,812 | 98.19% | — | — |
| 1 - 2 years (inclusive) | 91,911,670 | 1.10% | (14,607,100) | 57.46% |
| 2 - 3 years (inclusive) | 33,717,743 | 0.40% | (10,813,651) | 42.54% |
| More than 3 years | 26,029,590 | 0.31% | — | — |
| Total | 8,361,141,815 | 100.00% | (25,420,751) | 100.00% |

(c) **Analysis of the movement of provision for impairment losses:**

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| At the beginning of the year | (25,420,751) | — |
| Reversed/(provided) for the year | 8,081,121 | (31,619,896) |
| Write-offs for the year | 13,226,813 | 6,382,263 |
| Recoveries of account receivables previously written off | (13,851,705) | (183,118) |
| Effect of changes in foreign exchange rate | (524,018) | — |
| At the end of the year | (18,488,540) | (25,420,751) |

(d) **Accounts receivable that is not impaired**

Receivables that were neither past due nor impaired relate to a wide range of clients for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent clients that have a good track record of payments with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in the credit quality of these receivables and the balances are still considered fully recoverable.

**29 Receivable From Margin Clients**

(a) **Analyzed by nature:**

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Individuals | 2,482,904,142 | 2,772,733,577 |
| Institutions | 819,305,758 | 685,269,900 |
| Less: provision for impairment losses | (5,777,853) | — |
| Total | 3,296,432,047 | 3,458,003,477 |

(b) **Analyzed by fair value of collaterals:**

| | Fair value of collaterals As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Stocks | 14,051,288,840 | 10,800,280,120 |
| Cash | 521,097,559 | 391,412,434 |
| Debt securities | 18,601,623 | 17,263,409 |
| Total | 14,590,988,022 | 11,208,955,963 |

## 30 Financial Assets at Fair Value Through Profit or Loss

(a) **Analyzed by type:**

| | As at 31 December 2015 | | |
|---|---|---|---|
| | Financial assets held for trading | Financial assets designated as at fair value through profit or loss | Total |
| Equity investments | 5,915,045,555 | 6,561,603,309 | 12,476,648,864 |
| Debt securities | 20,279,792,939 | 300,000,000 | 20,579,792,939 |
| Funds and other investments | 11,648,354,424 | 754,463,441 | 12,402,817,865 |
| Total | 37,843,192,918 | 7,616,066,750 | 45,459,259,668 |

| | As at 31 December 2014 | | |
|---|---|---|---|
| | Financial assets held for trading | Financial assets designated as at fair value through profit or loss | Total |
| Equity investments | 1,987,342,058 | 7,752,346,039 | 9,739,688,097 |
| Debt securities | 10,750,613,852 | 95,000,000 | 10,845,613,852 |
| Funds and other investments | 296,683,114 | 771,740,180 | 1,068,423,294 |
| Total | 13,034,639,024 | 8,619,086,219 | 21,653,725,243 |

(b) **Analyzed by listing status:**

Financial assets held for trading:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Listed | | |
| — In Hong Kong | 86,748,557 | 64,299,878 |
| — Outside Hong Kong | 26,796,474,944 | 11,421,731,507 |
| Unlisted | 10,959,969,417 | 1,548,607,639 |
| Total | 37,843,192,918 | 13,034,639,024 |

Financial assets designated as at fair value through profit or loss:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Listed | | |
| — In Hong Kong | 560,967,563 | 64,679,725 |
| — Outside Hong Kong | 5,641,568,999 | 7,687,666,314 |
| Unlisted | 1,413,530,188 | 866,740,180 |
| Total | 7,616,066,750 | 8,619,086,219 |

**31 Derivative Financial Assets/(Liabilities)**

| | As at 31 December 2015 | | |
|---|---|---|---|
| | | Fair value | |
| | Notional amount | Assets | Liabilities |
| Interest rate contracts | 24,449,855,650 | 304,847,442 | (150,729,764) |
| Currency contracts | 11,502,202,868 | 111,807,536 | (79,420,725) |
| Equity contracts | 19,445,891,385 | 185,668,395 | (731,288,281) |
| Credit contracts | 793,018,956 | 9,643,105 | (7,598,748) |
| Other contracts | 5,802,642,935 | 124,277,990 | (102,580,525) |
| Total | 61,993,611,794 | 736,244,468 | (1,071,618,043) |
| Less: settlement | | — | 606,115 |
| Net position | | 736,244,468 | (1,071,011,928) |

| | As at 31 December 2014 | | |
|---|---|---|---|
| | | Fair value | |
| | Notional amount | Assets | Liabilities |
| Interest rate contracts | 32,562,424,433 | 238,356,627 | (207,472,346) |
| Currency contracts | 20,282,135,137 | 126,206,220 | (147,510,409) |
| Equity contracts | 35,449,880,261 | 181,164,624 | (210,581,520) |
| Credit contracts | 2,520,129,484 | 24,103,922 | (23,151,664) |
| Other contracts | 10,284,163,112 | 162,976,749 | (155,440,230) |
| Total | 101,098,732,427 | 732,808,142 | (744,156,169) |
| Less: settlement | | — | 6,350,474 |
| Net position | | 732,808,142 | (737,805,695) |

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures, treasury futures and commodity futures in Mainland China are settled daily and the corresponding receipts and payments are reflected in "deposits with clearing houses". Accordingly, the net position of the above contracts was nil as at 31 December 2015 and 2014.

## 32 Financial Assets Held Under Resale Agreements ("Reverse Repos")

### (a) Analyzed by collateral type:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Debt securities | 426,512,532 | 234,660,170 |
| Stocks | 1,135,779,989 | 1,387,188,261 |
| Less: provision for impairment losses | (5,678,900) | — |
| Total | 1,556,613,621 | 1,621,848,431 |

### (b) Analyzed by market:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Inter-bank market | 150,153,796 | — |
| Stock exchanges | 1,261,601,089 | 1,452,295,261 |
| Over-the-counter market | 144,858,736 | 169,553,170 |
| Total | 1,556,613,621 | 1,621,848,431 |

## 33 Interest Receivable

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Interest receivable from debt securities | 371,184,775 | 265,624,416 |
| Interest receivable from reverse REPOs | 19,204,648 | 53,997,583 |
| Interest receivable from margin financing and securities lending | 66,410,992 | 16,027,745 |
| Others | 21,707,623 | 6,303,263 |
| Total | 478,508,038 | 341,953,007 |

## 34 Cash Held on Behalf of Brokerage Clients

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The Group has classified their clients' monies as cash held on behalf of brokerage clients under the current assets of the consolidated statement of financial position and recognized the corresponding accounts payable to brokerage clients on the grounds that the Group is liable for any misappropriation of their clients' monies. In the PRC, clients' monies are restricted and governed by relevant third-party deposit regulations issued by the China Securities Regulatory Commission (the "CSRC"). In Hong Kong, clients' monies are restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 35 Cash and Bank Balances

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Cash on hand | 182,032 | 294,276 |
| Deposits with banks | 7,897,452,142 | 2,949,195,650 |
| Deposits with clearing houses | 536,451,504 | 468,852,454 |
| Total | 8,434,085,678 | 3,418,342,380 |

## 36 Cash and Cash Equivalents

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Cash on hand | 182,032 | 294,276 |
| Deposits with banks | 7,897,452,142 | 2,949,195,650 |
| Deposits with clearing houses | 536,451,504 | 468,852,454 |
| Less: fixed or restricted bank deposits | (441,885,793) | (66,559,814) |
| Total | 7,992,199,885 | 3,351,782,566 |

The fixed or restricted bank deposits mainly include bank deposits with original maturity of over three months held by the Group and the risk reserve deposits held for asset management business.

### 37 Financial Liabilities at Fair Value Through Profit or Loss

| | As at 31 December 2015 | | |
|---|---|---|---|
| | Financial liabilities held for trading | Financial liabilities designated as at fair value through profit or loss | Total |
| Equity investments | 21,583,407 | 5,426,566,098 | 5,448,149,505 |
| Debt securities | 134,201,447 | — | 134,201,447 |
| Funds and other investments | — | 1,965,210 | 1,965,210 |
| Total | 155,784,854 | 5,428,531,308 | 5,584,316,162 |

| | As at 31 December 2014 | | |
|---|---|---|---|
| | Financial liabilities held for trading | Financial liabilities designated as at fair value through profit or loss | Total |
| Equity investments | 81,290,082 | 7,228,287,398 | 7,309,577,480 |
| Debt securities | 216,352,226 | — | 216,352,226 |
| Total | 297,642,308 | 7,228,287,398 | 7,525,929,706 |

### 38 Accounts Payable to Brokerage Clients

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Clients' deposits for brokerage trading | 24,696,953,887 | 14,689,371,185 |
| Clients' deposits for margin financing and securities lending | 521,097,559 | 364,893,160 |
| Total | 25,218,051,446 | 15,054,264,345 |

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and clearing houses. Accounts payable to brokerage clients are interest bearing at the prevailing interest rate.

The balance of the accounts payable includes certain margin deposits and cash collaterals received from clients for their margin financing and securities lending activities under normal course of business. Only the amounts in excess of the required amount of margin deposits and cash collaterals are repayable on demand.

### 39 Placements From Financial Institutions

#### (a) Analyzed by funding source:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Due within one year | | |
| — Placements from China Securities Finance Co. Ltd | 996,000,000 | 853,000,000 |
| — Others | 640,815,800 | 676,569,000 |
| Subtoal | 1,636,815,800 | 1,529,569,000 |
| Due after one year | | |
| — Syndication loan (Note) | 1,623,400,000 | — |
| Total | 3,260,215,800 | 1,529,569,000 |

*Note:* China International Capital Corporation (Hong Kong) Limited ("CICC Hong Kong") entered into a syndication loan arrangement of USD 250 million effective 17 July 2015 with a maturity date of 19 May 2018. CICC Hong Kong can determine the interest period upon its drawdown and each subsequent rollover and has an option to early repay the loan wholly or partially with a prior notice no less than 30 calendar days.

#### (b) Analyzed by residual maturity:

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Book value | Range of interest rate | Book value | Range of interest rate |
| Within 1 month (inclusive) | 590,651,000 | 1.1%-2.3% | 361,021,000 | 0.0%-5.0% |
| 1 - 3 months (inclusive) | 650,164,800 | 3.6%-10.0% | 253,000,000 | 5.0%-10.0% |
| 3 months - 1 year (inclusive) | 396,000,000 | 5.0%-10.0% | 315,548,000 | 0.0%-5.0% |
| | 600,000,000 | 5.0%-10.0% | | |
| 1 year - 3 years (inclusive) | 1,623,400,000 | 1M Libor plus 2.5% p.a. | — | — |
| Total | 3,260,215,800 | | 1,529,569,000 | |

## 40 Short-Term Debt Securities Issued

| | Note | As at 31 December 2015 | As at 31 December 2014 |
|---|---|---|---|
| Short-term commercial papers | (a) | — | 800,000,000 |
| Beneficiary certificates | (b) | 1,700,000,000 | 100,000,000 |
| Total | | 1,700,000,000 | 900,000,000 |

### (a) Short-term commercial papers

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2015 | Issuance | Redemption | Book value as at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| 14 CICC CP007 | 16/12/2014 | 16/03/2015 | 5.40% | 800,000,000 | — | (800,000,000) | — |
| 15 CICC CP001 | 14/01/2015 | 14/04/2015 | 4.90% | — | 900,000,000 | (900,000,000) | — |
| 15 CICC CP002 | 19/03/2015 | 17/06/2015 | 4.90% | — | 800,000,000 | (800,000,000) | — |
| 15 CICC CP003 | 10/04/2015 | 09/07/2015 | 4.80% | — | 800,000,000 | (800,000,000) | — |
| 15 CICC CP004 | 19/06/2015 | 17/09/2015 | 3.55% | — | 800,000,000 | (800,000,000) | — |
| 15 CICC CP005 | 17/07/2015 | 15/10/2015 | 3.00% | — | 800,000,000 | (800,000,000) | — |
| Total | | | | 800,000,000 | 4,100,000,000 | (4,900,000,000) | — |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2014 | Issuance | Redemption | Book value as at 31 December 2014 |
|---|---|---|---|---|---|---|---|
| 13 CICC CP003 | 25/10/2013 | 23/01/2014 | 5.20% | 1,000,000,000 | — | (1,000,000,000) | — |
| 14 CICC CP001 | 15/01/2014 | 15/04/2014 | 6.00% | — | 1,000,000,000 | (1,000,000,000) | — |
| 14 CICC CP002 | 11/04/2014 | 10/07/2014 | 4.84% | — | 1,000,000,000 | (1,000,000,000) | — |
| 14 CICC CP003 | 25/04/2014 | 24/07/2014 | 4.65% | — | 1,000,000,000 | (1,000,000,000) | — |
| 14 CICC CP004 | 17/07/2014 | 15/10/2014 | 4.59% | — | 800,000,000 | (800,000,000) | — |
| 14 CICC CP005 | 24/07/2014 | 22/10/2014 | 4.77% | — | 700,000,000 | (700,000,000) | — |
| 14 CICC CP006 | 16/09/2014 | 15/12/2014 | 4.64% | — | 1,000,000,000 | (1,000,000,000) | — |
| 14 CICC CP007 | 16/12/2014 | 16/03/2015 | 5.40% | — | 800,000,000 | — | 800,000,000 |
| Total | | | | 1,000,000,000 | 6,300,000,000 | (6,500,000,000) | 800,000,000 |

(b) **Beneficiary certificates**

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2015 | Issuance | Redemption | Book value as at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| CICC Tianxinbao No.1..... | 26/12/2014 | 25/06/2015 | 5.80% | 50,000,000 | — | (50,000,000) | — |
| CICC Zhaozhaoniu No.1 .. | 26/12/2014 | 25/06/2015 | Floating interest rate | 50,000,000 | — | (50,000,000) | — |
| CICC Tianxinbao No.2..... | 04/02/2015 | 04/08/2015 | 5.20% | — | 60,000,000 | (60,000,000) | — |
| CICC Tianxinbao No.3..... | 27/03/2015 | 29/06/2015 | 5.50% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.4..... | 02/04/2015 | 28/09/2015 | 5.70% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.5..... | 03/04/2015 | 06/07/2015 | 4.30% | — | 10,000,000 | (10,000,000) | — |
| CICC Tianxinbao No.6..... | 08/04/2015 | 07/07/2015 | 5.62% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.7..... | 30/04/2015 | 27/10/2016 | 6.10% | — | 300,000,000 | — | 300,000,000 |
| CICC Tianxinbao No.8..... | 08/05/2015 | 08/11/2016 | 6.20% | — | 200,000,000 | — | 200,000,000 |
| CICC Tianxinbao No.9..... | 24/06/2015 | 23/12/2015 | 5.70% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.10... | 24/06/2015 | 23/12/2015 | 5.70% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.11 ... | 26/06/2015 | 23/12/2015 | 5.80% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.12... | 19/06/2015 | 16/12/2015 | 5.80% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.13... | 26/06/2015 | 23/12/2015 | 5.80% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.14... | 23/12/2015 | 22/01/2016 | 3.95% | — | 50,000,000 | — | 50,000,000 |
| CICC Fixed Return No.2.. | 12/05/2015 | 10/08/2015 | 5.60% | — | 200,000,000 | (200,000,000) | — |
| CICC Jinyintong No.1...... | 03/04/2015 | 29/09/2015 | 6.05% | — | 200,000,000 | (200,000,000) | — |
| CICC Jinyintong No.2...... | 07/07/2015 | 21/07/2015 | 5.00% | — | 700,000,000 | (700,000,000) | — |
| CICC Jinyintong No.3...... | 21/12/2015 | 21/01/2016 | 4.00% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.4...... | 23/12/2015 | 23/03/2016 | 4.20% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.5...... | 28/12/2015 | 28/01/2016 | 4.00% | — | 150,000,000 | — | 150,000,000 |
| Total ................................ | | | | 100,000,000 | 3,470,000,000 | (1,870,000,000) | 1,700,000,000 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2014 | Issuance | Redemption | Book value as at 31 December 2014 |
|---|---|---|---|---|---|---|---|
| CICC Tianxinbao No.1..... | 26/12/2014 | 25/06/2015 | 5.80% | — | 50,000,000 | — | 50,000,000 |
| CICC Zhaozhaoniu No.1 .. | 26/12/2014 | 25/06/2015 | Floating interest rate | — | 50,000,000 | — | 50,000,000 |
| Total ................................ | | | | — | 100,000,000 | — | 100,000,000 |

*Note:*

The floating interest rate is calculated based on Shanghai & Shenzhen 300 index.

## 41 Financial Assets Sold Under Repurchase Agreements ("Repos")

### (a) Analyzed by collateral type:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Debt securities | 13,013,713,250 | 6,381,463,005 |
| Others | 1,000,000,000 | 1,969,000,000 |
| Total | 14,013,713,250 | 8,350,463,005 |

### (b) Analyzed by market:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Inter-bank market | 8,310,657,781 | 3,901,847,826 |
| Stock exchanges | 4,463,010,000 | 2,098,009,681 |
| Over-the-counter market | 1,240,045,469 | 2,350,605,498 |
| Total | 14,013,713,250 | 8,350,463,005 |

## 42 Other Current Liabilities

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Taxes payable | 127,424,038 | 241,798,859 |
| Interests payable | 228,545,389 | 116,284,255 |
| Accrued expenses | 352,570,132 | 202,190,291 |
| Trade payable | 13,453,013,694 | 2,726,239,521 |
| Others | 2,230,385,615 | 741,539,786 |
| Total | 16,391,938,868 | 4,028,052,712 |

## 43 Long-Term Debt Securities Issued

| | | As at 31 December | |
|---|---|---|---|
| | Note | 2015 | 2014 |
| Due after one year | | | |
| — Subordinated bonds | (a) | 5,000,000,000 | 3,000,000,000 |
| — Notes payable | (b) | 1,071,444,000 | 1,009,635,000 |
| Total | | 6,071,444,000 | 4,009,635,000 |
| Fair value | | 6,402,662,243 | 4,019,831,342 |

(a) **Subordinated bonds:**

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2015 | Issuance | Redemption | Book value as at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| 13 subordinated bonds (i) ........ | 25/07/2013 | 25/07/2019 | 1st - 3rd years 6% 4th - 6th years 9% | 3,000,000,000 | — | — | 3,000,000,000 |
| 15 subordinated bonds (ii) ....... | 29/05/2015 | 29/05/2021 | 1st - 3rd years 5.25% 4th - 6th years 8.25% | — | 2,000,000,000 | — | 2,000,000,000 |
| Total.................. | | | | 3,000,000,000 | 2,000,000,000 | — | 5,000,000,000 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value as at 1 January 2014 | Issuance | Redemption | Book value as at 31 December 2014 |
|---|---|---|---|---|---|---|---|
| 13 subordinated bonds (i) ........ | 25/07/2013 | 25/07/2019 | 1st - 3rd years 6% 4th - 6th years 9% | 3,000,000,000 | — | — | 3,000,000,000 |
| Total.................. | | | | 3,000,000,000 | — | — | 3,000,000,000 |

(i) The Company issued subordinated bonds with a principal amount of RMB3 billion on 25 July 2013 with a maturity date of 25 July 2019. Interests of the subordinated bonds are paid annually. The Company has an option to redeem the bonds on 25 July 2016.

(ii) The Company issued subordinated bonds with a principal amount of RMB2 billion on 29 May 2015 with a maturity date of 29 May 2021. Interests of the subordinated bonds are paid annually. The Company has an option to redeem the bonds on 29 May 2018.

(b) **Notes payable:**

CICC Hong Kong issued the notes with a principal amount of US dollars (“USD”) 165 million on 28 April 2011 with a maturity date of 28 April 2021. Interests of the notes are paid semi-annually. CICC Hong Kong has an option to redeem the notes partially or wholly after 28 April 2016.

## 44 Other Non-Current Liabilities

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Long-term borrowings | 10,200,000 | 10,200,000 |
| Long-term finance leases payable | 2,560,096 | 2,840,255 |
| Total | 12,760,096 | 13,040,255 |

## 45 Capital, Reserves and Dividends

### Movement in components of equity

The reconciliation between the opening and closing balance of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's components of equity between the beginning and the end of the years are set out below:

| | | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital/paid-in capital (Note (i)) | Other equity instruments (Note 46) | Capital reserve (Note (ii)) | Surplus reserve (Note (ii)) | General reserve (Note (ii)) | Investment revaluation reserve (Note (ii)) | Retained profits | Total |
| At 1 January 2015 | 1,667,473,000 | — | 2,296,343,756 | 473,400,427 | 1,118,968,691 | 2,641,374 | 2,542,038,465 | 8,100,865,713 |
| Profit for the year | — | — | — | — | — | — | 1,528,456,576 | 1,528,456,576 |
| Other comprehensive income for the year | — | — | — | — | — | 26,219 | — | 26,219 |
| Total comprehensive income for the year | — | — | — | — | — | 26,219 | 1,528,456,576 | 1,528,482,795 |
| Appropriation to surplus reserve | — | — | — | 152,845,657 | — | — | (152,845,657) | — |
| Appropriation to general reserve | — | — | — | — | 305,691,316 | — | (305,691,316) | — |
| Issuance of perpetual subordinated bonds | — | 1,000,000,000 | — | — | — | — | — | 1,000,000,000 |
| Issuance of H shares | 639,196,000 | — | 4,613,243,891 | — | — | — | — | 5,252,439,891 |
| Conversion to joint stock company with limited liability | — | — | 3,020,721,641 | (473,400,427) | — | (2,641,374) | (2,544,679,840) | — |
| Other | — | — | (2,641,374) | — | — | — | — | (2,641,374) |
| At 31 December 2015 | 2,306,669,000 | 1,000,000,000 | 9,927,667,914 | 152,845,657 | 1,424,660,007 | 26,219 | 1,067,278,228 | 15,879,147,025 |

| | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital/paid-in capital (Note (i)) | Capital reserve (Note (ii)) | Surplus reserve (Note (ii)) | General reserves (Note (ii)) | Investment revaluation reserve (Note (ii)) | Retained profits | Total |
| At 1 January 2014 | 1,667,473,000 | 1,448,741 | 412,316,113 | 996,800,063 | (389,945) | 2,114,448,270 | 5,192,096,242 |
| Profit for the year | — | — | — | — | — | 610,843,137 | 610,843,137 |
| Other comprehensive income for the year | — | — | — | — | 3,031,319 | — | 3,031,319 |
| Total comprehensive income for the year | — | — | — | — | 3,031,319 | 610,843,137 | 613,874,456 |
| Appropriation to surplus reserve | — | — | 61,084,314 | — | — | (61,084,314) | — |
| Appropriation to general reserve | — | — | — | 122,168,628 | — | (122,168,628) | — |
| Surplus on valuation | — | 2,294,895,015 | — | — | — | — | 2,294,895,015 |
| At 31 December 2014 | 1,667,473,000 | 2,296,343,756 | 473,400,427 | 1,118,968,691 | 2,641,374 | 2,542,038,465 | 8,100,865,713 |

(i) **Share capital/paid-in capital**

Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability. After the conversion, the Company issued 1,667,473,000 ordinary shares with par value of RMB1 each.

On 9 November 2015, the Company issued 555,824,000 H-share with a par value of RMB1 at an offering price of HKD10.28 per share. On 18 November 2015, the Company exercised the over-allotment option and issued 83,372,000 H shares with a par value of RMB1 at an offering price of HKD10.28 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(ii) **Reserves**

(1) *Capital reserve*

**The Group**

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Share premium (a) | 7,680,642,418 | — |
| Others (b) | 25,025,907 | 26,474,648 |
| Total | 7,705,668,325 | 26,474,648 |

**The Company**

| | As at 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Share premium (a) | 9,927,667,914 | 2,294,895,015 |
| Others (b) | — | 1,448,741 |
| Total | 9,927,667,914 | 2,296,343,756 |

(a) As required by the relevant PRC rules and regulations with respect to the conversion to a joint stock company with limited liability, the Company has transferred its retained profits, surplus reserve and investment revaluation reserve as at 31 December 2014 into its capital reserve as share premium.

The property and equipment, intangible assets and investment in subsidiaries of the Company were restated at their revalued amounts or deemed costs on 31 December 2014, resulting in a surplus on revaluation of RMB2,294,895,015 being credited to capital reserve. The above valuation surplus is reversed in the Group's consolidated financial statements.

The premium arising from the Company's H-share offering (see Note 45(i)) was recorded in capital reserve.

(b) Others mainly represent the difference arising from the redemption of preference shares by CICC Hong Kong in 1998.

(2) *Surplus reserve*

The surplus reserve represents statutory surplus reserve. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC (the "MOF") after offsetting prior year's accumulated loss, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of the equity holders/shareholders, the statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company provided that the balance of the statutory surplus reserve after such capitalization is not less than 25% of the registered capital immediately before the capitalization.

(3) *General reserves*

General reserves include general risk reserve and trading risk reserve.

In accordance with the Financial Rules for Financial Enterprises (Order of the MOF No. 42) and the application guidance (Caijin [2007] No. 23) issued by the MOF, and the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the general risk reserve.

In accordance with the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the trading risk reserve.

(4) *Investment revaluation reserve*

The investment revaluation reserve comprises the cumulative net changes in fair values of available-for-sale financial assets held at the end of year.

(5) *Foreign currency translation reserve*

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of the Group entities from their respective reporting currencies to RMB.

(iii) **Dividends**

The Company has not distributed any dividends to the shareholders/equity holders during the year.

## 46 Other Equity Instruments

The Company issued its 2015 perpetual subordinated bonds with a principal amount of RMB1 billion on 29 May 2015. The interest rate of the perpetual subordinated bonds resets every 5 years thereafter based on a benchmark rate and a predetermined spread.

The Company does not have any contractual obligation to deliver cash or other financial assets to redeem the perpetual subordinated bonds. The redemption of the perpetual subordinated bonds is solely at the discretion of the Company.

## 47 Commitments

(a) **Capital commitments**

Capital commitments outstanding at 31 December 2015 and 2014 not provided for in the financial statements were as follows:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Contracted, but not provided for | 158,806,837 | 220,115,472 |

(b) **Operating lease commitments**

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Within 1 year (inclusive) | 215,715,886 | 196,695,912 |
| 1 - 2 years (inclusive) | 202,178,532 | 155,787,759 |
| 2 - 3 years (inclusive) | 187,815,098 | 86,724,947 |
| More than 3 years | 350,638,130 | 140,214,792 |
| Total | 956,347,646 | 579,423,410 |

(c) **Underwriting commitments**

There was no underwriting commitments taken but not provided for by the Group as at 31 December 2015 (31 December 2014: RMB3 billion).

## 48 Interests in Structured Entities

(a) **Interests in structured entities consolidated by the Group**

Structured entities consolidated by the Group are certain asset management products where the Group is involved as both manager and investor. The Group assesses whether the combination of its investments in these products and its remuneration generated from the investments creates an exposure to the variability of returns from the activities of these asset management products to a level of such significance that it indicates that the Group is a principal.

As at 31 December 2015 and 2014 the total assets of the consolidated asset management products are RMB7,297,392,170 and RMB652,964,507 respectively, and the carrying amount of interests held by the Group in the consolidated asset management products are RMB1,316,799,412 and RMB84,141,793 respectively, which are accounted for as financial assets at fair value through profit or loss.

(b) **Interests in structured entities sponsored by third party institutions**

The types of structured entities that the Group does not consolidate but holds an interest in include wealth management products, asset management schemes, mutual funds, trust products, and other vehicles issued by other financial institutions.

The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through issuing units to investors.

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Carrying amount of interests held by the Group | | |
| — Financial assets at fair value through profit or loss | 4,172,418,061 | 365,005,617 |
| — Available-for-sale financial assets | 500,000,000 | — |

The Group's exposure to the variable returns in these structured entities is not significant from the perspective of the structured entities and the maximum exposure to loss is limited to the carrying amount of the interests held by the Group.

(c) **Interests in structured entities sponsored by the Group but not consolidated**

Structured entities for which the Group serves as general partner or manager, therefore has power over them during the years include private equity funds, mutual funds, trust products and asset management products. These structured entities are mainly financed through issuing units to investors.

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Carrying amount of interests held by the Group | | |
| — Financial assets at fair value through profit or loss | 3,744,860,220 | 240,045,810 |
| — Available-for-sale financial assets | 517,927,380 | 352,162,337 |
| — Accounts receivable | 396,874,795 | 200,879,998 |

For the year ended 31 December 2015 and 2014, the Group obtained management fee and performance fee amounting to RMB908,934,486 and RMB521,216,448 respectively from these structured entities.

Except for those which have been consolidated by the Group as set out in Note 48(a), the Group's exposure to the variable returns in the rest of these structured entities is not significant. The maximum exposure to loss is limited to the carrying amount of the interests held by the Group.

During the year, the Group did not provide financial support to these unconsolidated structured entities and has no intention of providing financial or other support in the future.

## 49 Contingencies

The Group has no outstanding litigation which would have a material impact on its financial position as at 31 December 2015 and 2014.

## 50 Related Party Relationships and Transactions

### (a) Related party transactions with key management personnel

The key management personnel are those who have the authority and responsibility to plan, direct and control directly or indirectly, the activities of the Group, including members of the Board of Directors and the supervisory board, and other senior executives.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 13, is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Salaries, allowances and benefits in kind | 21,232,891 | 11,282,395 |
| Discretionary bonuses | 111,817,522 | 34,625,047 |
| Retirement scheme contributions | 413,373 | 185,047 |
| Total | 133,463,786 | 46,092,489 |

Total remuneration of key management personnel is included in "staff costs" (see Note 12).

### (b) Related party transactions with major shareholders/equity holders

(i) *Related party transactions with major shareholders/equity holders and their related parties*

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Brokerage commission income | 12,299,413 | 37,264,682 |
| Brokerage expenses | (2,087,529) | — |
| Underwriting and sponsoring fees | 104,176,746 | 75,752,671 |
| Interest income | 182,756,025 | 70,598,502 |
| Asset management fees | 80,530,045 | 60,826,993 |
| Net gains from financial assets at fair value through profit or loss | 37,213,168 | 106,229,693 |
| Interest expenses | (44,706,753) | (33,203,044) |
| Option fees | — | (13,848,555) |

(ii) *The balances of transactions with major shareholders/equity holders and their related parties*

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Subordinated bonds | (540,000,000) | (340,000,000) |
| Interest payable | (15,160,499) | (8,942,466) |
| Cash and bank balances (Note) | 9,039,480,902 | 4,345,104,062 |
| Refundable deposits | — | 4,510,548 |
| Financial assets at fair value through profit or loss | 374,258,713 | 802,744,202 |
| REPOs | (1,020,255,279) | (1,209,800,000) |
| Accounts payable to brokerage clients | (6,749) | (7,381,625) |
| Accounts receivable | — | 1,853,537 |
| Entrusted funds | 12,646,092,578 | 12,294,536,177 |

*Note:* The cash and bank balances deposited with major shareholders/equity holders and their related parties includes self-owned cash and bank balances and cash held on behalf of brokerage clients.

(iii) In February 27, 2014, the Company entered into agreements with China Jianyin Investment Ltd. ("Jianyin Investment") to acquire the entire equity interest of Fortune Futures Co., Ltd. ("Fortune Futures") for a consideration of RMB247,653,726, equalling to its fair value of net assets at 31 December 2012 which was valued by a qualified appraiser and its accumulated profit and other comprehensive income of Fortune Futures from 1 January 2013 to the date of acquisition (see Note 56(5) for details). Fortune Futures was renamed as CICC Futures Co., Ltd. ("CICC Futures") after the acquisition.

(c) **Related party transactions with the Group's associates and joint ventures**

(i) Details of the Group's associates and joint ventures are disclosed in Note 23.

(ii) *Related party transactions with associates and joint ventures and their related parties*

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Brokerage commission income | 2,150,411 | — |
| Asset management fees | 8 | 1,712,792 |
| Investment advisory fees | 3,923,597 | 2,002,069 |
| Interest income | 28,849 | — |

(iii) *The balances of transactions with associates and joint ventures and their related parties*

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Accounts receivable | 6,196,689 | 4,069,959 |

(d) **Applicability of the Listing Rules relating to connected transactions**

The related party transactions above do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Directors' Report.

(e) **Directors' and supervisors' interests in contracts and service contracts**

At any time during the year, none of the Group's directors or supervisors had any interest, whether directly or indirectly, in any contract (excluding service contracts) of significance in relation to the Company's business to which the Company, or its associated companies, is a party. None of the directors and supervisors have entered into a service contract with the Company that cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation).

## 51 SEGMENT REPORTING

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. An operating segment is a component of the Group:

— that engages in business activities from which it may earn revenues and incur expenses;

— whose operating results are regularly reviewed by the Group's management for the purposes of resources allocation and performance evaluation; and

— for which financial statements regarding financial position, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics in respect of:

— the nature of services;

— the type or class of customers for the services;

— the methods used to provide the services; and

— the nature of the regulatory environment.

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 unit that offers services which are subject to risks and returns that are different from the other operating segments. A summary of the operating segments is as follows:

— the Investment Banking segment provides investment banking services, including equity financing, debt and structured financing and financial advisory services as well as the National Equities Exchange and Quotations ("NEEQ") services, to clients in the PRC and overseas.

— the Equity Sales and Trading segment provides a wide range of equity sales and trading services, including brokerage services and capital-based intermediary services, to institutional investors, including financial institutions, corporations and governmental entities.

— the Fixed-income, Currency and Commodity ("FICC") segment engages in trading of financial products, including fixed-income, equities, currencies and commodities products, using the Group's own capital, as well as for clients facilitation purposes. It also provides product structuring, fixed income distribution and futures brokerage services.

— the Wealth Management segment provides a wide range of wealth management products and services, consisting of advisory services, transactional services, capital-based intermediary services and product services, to high-net-worth individuals, family offices and corporate clients.

— the Investment Management segment designs and provides a wide range of asset management products and services for domestic and overseas investors. It also manages mutual funds, private equity funds as well as funds of funds.

— the Others segment mainly comprises of other business departments and back offices.

(a) **Segment results**

| | Year ended 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment Banking | Equity Sales and Trading | FICC | Wealth Management | Investment Management | Others | Total |
| Segment revenue | | | | | | | |
| — Fee and commission income | 2,317,592,012 | 2,125,533,360 | 130,057,292 | 1,049,611,653 | 964,867,725 | 153,983 | 6,587,816,025 |
| — Interest income | 2,468,389 | 290,124,617 | 40,454,101 | 542,009,019 | 10,180,711 | 135,263,157 | 1,020,499,994 |
| — Investment income | 11,252,742 | 218,972,964 | 1,428,268,921 | 90,725,619 | 97,925,732 | 6,190,161 | 1,853,336,139 |
| — Other income | 369,795 | 4,052,849 | 8,231,700 | 14,455,293 | 10,136,672 | 7,786,168 | 45,032,477 |
| Segment revenue and other income | 2,331,682,938 | 2,638,683,790 | 1,607,012,014 | 1,696,801,584 | 1,083,110,840 | 149,393,469 | 9,506,684,635 |
| Segment expenses | (1,335,360,321) | (1,108,491,419) | (754,910,295) | (1,081,692,254) | (723,384,655) | (1,985,933,655) | (6,989,772,599) |
| Segment operating profit/(loss) | 996,322,617 | 1,530,192,371 | 852,101,719 | 615,109,330 | 359,726,185 | (1,836,540,186) | 2,516,912,036 |
| Share of profits of associates and joint ventures | — | — | — | — | 82,062,186 | 21,603,178 | 103,665,364 |
| Profit/(loss) before income tax | 996,322,617 | 1,530,192,371 | 852,101,719 | 615,109,330 | 441,788,371 | (1,814,937,008) | 2,620,577,400 |
| Interest expenses (Note) | (12,687,837) | (222,770,549) | (417,205,697) | (328,956,689) | (59,723,415) | (53,437,178) | (1,094,781,365) |
| Depreciation and amortization expenses | (781,139) | (5,930,669) | (2,542,188) | (13,687,608) | (6,148,367) | (21,991,308) | (51,081,279) |
| Reversal/(provision) for impairment losses | 10,567,627 | (1,994,829) | (40,388) | (9,461,924) | (2,446,118) | — | (3,375,632) |

| | Year ended 31 December 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment Banking | Equity Sales and Trading | FICC | Wealth Management | Investment Management | Others | Total |
| Segment revenue | | | | | | | |
| — Fee and commission income | 1,650,038,177 | 1,289,878,963 | 71,926,343 | 564,217,436 | 575,325,563 | 500,291 | 4,151,886,773 |
| — Interest income | 18,224,566 | 128,954,793 | 22,613,105 | 239,332,667 | 5,780,119 | 34,902,895 | 449,808,145 |
| — Investment income | 14,391,223 | 243,108,537 | 1,201,388,061 | 33,765,107 | 27,332,654 | 6,783,665 | 1,526,769,247 |
| — Other income | 243,343 | 1,023,318 | 150 | 3,947,594 | 2,404,897 | 19,707,877 | 27,327,179 |
| Segment revenue and other income | 1,682,897,309 | 1,662,965,611 | 1,295,927,659 | 841,262,804 | 610,843,233 | 61,894,728 | 6,155,791,344 |
| Segment expenses | (1,127,965,951) | (749,763,484) | (710,049,995) | (592,815,847) | (514,511,077) | (1,022,601,882) | (4,717,708,236) |
| Segment operating profit/(loss) | 554,931,358 | 913,202,127 | 585,877,664 | 248,446,957 | 96,332,156 | (960,707,154) | 1,438,083,108 |
| Share of profits of associates and joint ventures | — | — | — | — | 40,658,630 | 27,114,982 | 67,773,612 |
| Profit/(loss) before income tax | 554,931,358 | 913,202,127 | 585,877,664 | 248,446,957 | 136,990,786 | (933,592,172) | 1,505,856,720 |
| Interest expenses (Note) | (10,253,039) | (158,827,495) | (445,747,729) | (153,763,817) | (55,641,091) | 82,151,386 | (742,081,785) |
| Depreciation and amortization expenses | (781,951) | (9,031,312) | (749,915) | (12,725,762) | (4,170,174) | (32,451,820) | (59,910,934) |
| (Provision) /reversal for impairment losses | (29,652,265) | (91,273) | 183,118 | (671,278) | (1,388,198) | — | (31,619,896) |

*Note:* The Group calculates internal interest expenses for the reportable segments according to the capital used during the year for the purpose of measuring segment operating performance and improving the efficiencies of capital management.

(b) **Geographical information**

The following table sets out the Group's operating income from external clients and the Group's non-current assets (excluding financial instruments, deferred tax assets, same as below) in terms of geographical locations. The geographical locations of the operating income from external clients are identified based on the locations of the clients to whom the services are rendered. The geographical locations of the non-current assets are identified based on the locations where the fixed assets are located or the intangible assets are allocated or the associates and joint ventures operate.

| | Revenues and other income from external customers | |
|---|---|---|
| | Year ended 31 December | |
| | 2015 | 2014 |
| Mainland China | 7,747,449,789 | 4,437,812,602 |
| Overseas | 1,759,234,846 | 1,717,978,742 |
| Total | 9,506,684,635 | 6,155,791,344 |

| | Non-current assets | |
|---|---|---|
| | As at 31 December | |
| | 2015 | 2014 |
| Mainland China | 1,003,955,079 | 905,149,887 |
| Overseas | 193,999,933 | 181,189,422 |
| Total | 1,197,955,012 | 1,086,339,309 |

Reconciliation of segment non-current assets:

| | Non-current assets | |
|---|---|---|
| | As at 31 December | |
| | 2015 | 2014 |
| Total non-current assets for segments | 2,928,070,738 | 1,788,781,309 |
| Elimination of inter-segment non-current assets | (1,730,115,726) | (702,442,000) |
| Total | 1,197,955,012 | 1,086,339,309 |

(c) **Major clients**

The Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue for the year.

## 52 Fair Value Information

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Financial assets including cash and bank balances, cash held on behalf of brokerage clients, reverse REPOs and financial liabilities including short-term placements from financial institutions and REPOs, are mainly instruments with floating interest rates or short-term financing. Accordingly, their carrying amounts approximate the fair values.

(ii) Financial assets at fair value through profit or loss, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flows or other valuation techniques.

(iii) The fair values of short-term and long-term debt securities issued are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as similar credit risk and maturity, to estimate the fair values using discounted cash flows or other valuation techniques. The fair values of long-term debt securities issued are disclosed in Note 43. The carrying amounts of long-term placement from financial institutions and short-term debt securities issued approximate to their fair values.

(iv) Accounts receivable and accounts payable to brokerage clients are due mainly within one year. Accordingly, the carrying amounts approximate the fair values.

### (a) Financial assets and liabilities measured at fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level I valuations: Fair value measured using only Level I inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level II valuations: Fair value measured using Level II inputs i.e. observable inputs which fail to meet Level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level III valuations: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyzes financial instruments measured at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| | As at 31 December 2015 | | | |
|---|---|---|---|---|
| | **Level I** | **Level II** | **Level III** | **Total** |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| — Equity investments | 2,520,861,785 | 3,394,183,770 | — | 5,915,045,555 |
| — Debt securities | 4,933,179,067 | 15,346,613,872 | — | 20,279,792,939 |
| — Funds and other investments | 4,268,714,082 | 7,379,640,342 | — | 11,648,354,424 |
| Financial assets designated as at fair value through profit or loss | | | | |
| — Equity investments | 6,058,517,273 | 503,086,036 | — | 6,561,603,309 |
| — Debt securities | — | — | 300,000,000 | 300,000,000 |
| — Funds and other investments | 12,896,243 | 649,086,470 | 92,480,728 | 754,463,441 |
| Derivative financial assets | 4,452,372 | 731,792,096 | — | 736,244,468 |
| Available-for-sale financial assets | | | | |
| — Equity investments | 20,132,584 | — | 1,178,744,923 | 1,198,877,507 |
| — Funds and other investments | 488,582 | — | — | 488,582 |
| Total | 17,819,241,988 | 28,004,402,586 | 1,571,225,651 | 47,394,870,225 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities held for trading | | | | |
| — Equity investments | (21,583,407) | — | — | (21,583,407) |
| — Debt securities | — | (134,201,447) | — | (134,201,447) |
| Financial liabilities designated as at fair value through profit or loss | | | | |
| — Equity investments | — | (5,426,566,098) | — | (5,426,566,098) |
| — Funds and other investments | (1,965,210) | — | — | (1,965,210) |
| Derivatives financial liabilities | (1,668,050) | (1,054,245,119) | (15,098,759) | (1,071,011,928) |
| Total | (25,216,667) | (6,615,012,664) | (15,098,759) | (6,655,328,090) |

| | As at 31 December 2014 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| — Equity investments | 1,987,342,058 | — | — | 1,987,342,058 |
| — Debt securities | 2,491,456,286 | 8,259,157,566 | — | 10,750,613,852 |
| — Funds and other investments | 36,098,778 | 260,584,336 | — | 296,683,114 |
| Financial assets designated as at fair value through profit or loss | | | | |
| — Equity investments | 7,752,346,039 | — | — | 7,752,346,039 |
| — Debt securities | — | 95,000,000 | — | 95,000,000 |
| — Funds and other investments | — | 650,128,342 | 121,611,838 | 771,740,180 |
| Derivative financial assets | 24,151,641 | 708,656,501 | — | 732,808,142 |
| Available-for-sale financial assets | | | | |
| — Equity investments | 24,693,897 | — | 388,451,021 | 413,144,918 |
| — Funds and other investments | 20,816,763 | — | — | 20,816,763 |
| Total | 12,336,905,462 | 9,973,526,745 | 510,062,859 | 22,820,495,066 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities held for trading | | | | |
| — Equity investments | (81,290,082) | — | — | (81,290,082) |
| — Debt securities | — | (216,352,226) | — | (216,352,226) |
| Financial liabilities designated as at fair value through profit or loss | | | | |
| — Equity investments | — | (7,228,287,398) | — | (7,228,287,398) |
| Derivatives financial liabilities | (24,130,839) | (682,364,416) | (31,310,440) | (737,805,695) |
| Total | (105,420,921) | (8,127,004,040) | (31,310,440) | (8,263,735,401) |

(i) At 31 December 2015, investment in certain suspended stocks which were classified as financial assets held for trading and financial assets designated as at fair value through profit or loss of the Group with the carrying amount of RMB372,286,560 were transferred from Level I to Level II as the quoted prices of these stocks were no longer regularly available. For the years ended 31 December 2015 and 2014, there were no other significant transfer between Level I and Level II of the fair value hierarchy.

(ii) Information about Level III fair value measurements

As at 31 December 2015 and 2014, it is estimated that the sensitivity of the Group's profit or loss and other comprehensive income to the fluctuation of parameters used in Level III fair value measurements is not significant.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

| | Financial assets at fair value through profit or loss | Available- for-sale financial assets | Derivatives financial liabilities | Total |
|---|---|---|---|---|
| As at 1 January 2015 | 121,611,838 | 388,451,021 | (31,310,440) | 478,752,419 |
| Gains or losses for the year | (9,826,838) | 105,317,740 | (56,034,732) | 39,456,170 |
| Changes in fair value recognized in other comprehensive income | — | (34,087,893) | — | (34,087,893) |
| Purchases | 300,695,728 | 719,064,055 | — | 1,019,759,783 |
| Sales and settlements | (20,000,000) | — | 72,246,413 | 52,246,413 |
| Transfer into Level III | — | — | — | — |
| Transfer out of Level III | — | — | — | — |
| As at 31 December 2015 | 392,480,728 | 1,178,744,923 | (15,098,759) | 1,556,126,892 |
| Total gains or losses for the year included in profit or loss for assets held at the end of the year | (2,980,838) | 105,317,740 | (56,034,732) | 46,302,170 |
| As at 1 January 2014 | 165,095,364 | 304,210,707 | — | 469,306,071 |
| Gains or losses for the year | 6,184,974 | 4,729,728 | (31,310,440) | (20,395,738) |
| Changes in fair value recognized in other comprehensive income | — | 1,615,057 | — | 1,615,057 |
| Purchases | 331,500 | 77,895,529 | — | 78,227,029 |
| Sales and settlements | (50,000,000) | — | — | (50,000,000) |
| Transfer into Level III | — | — | — | — |
| Transfer out of Level III | — | — | — | — |
| As at 31 December 2014 | 121,611,838 | 388,451,021 | (31,310,440) | 478,752,419 |
| Total gains or losses for the year included in profit or loss for assets held at the end of the year | 6,754,835 | 4,729,728 | (31,310,440) | (19,825,877) |

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

| Financial assets | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|---|---|---|---|---|
| Funds and other investments | Level III | Allocated net assets value | Net asset value | The higher the allocated net assets value, the higher the fair value |
| Unlisted equity investments | Level III | Market comparable companies | Discount for lack of marketability | The higher the discount, the lower the fair value |

(b) **Fair value of financial assets and liabilities carried at other than fair value**

The fair values of long-term debt securities issued have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Group, which are classified as Level II categories and disclosed in Note 43.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the Group and the Company's statement of financial position approximate their fair values.

**53 Financial Risk Management**

The Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

(a) **Credit risk**

Credit risk represents the potential loss that may arise from the failure of counterparties, clients, intermediary institutions, bond issuers or other business associates to meet their contracted obligation to the Group.

Currently, the Group's exposure to credit risk arises from: (1) direct credit risk from debt borrowers (including borrowers in margin financing and securities lending business) or bond issuers' default or bankruptcy, including the loss due to intermediary institutions such as brokers or custodian banks. The risk exposure is the total value of the debt outstanding; (2) counterparty credit risk from a counterparty's default on the over-the-counter derivative transactions, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives; (3) settlement risk from a business associate's failure in delivery of fund or securities when the Group has fulfilled its delivery obligation.

To mitigate direct credit risk, the Group has set up investment criteria and limits based on bonds variety, credit ratings and issuers. For margin financing and securities lending and reverse REPOs, the Group undertakes various means to mitigates the direct credit risk, including holding collaterals from clients, reviewing and setting client trading limits, managing the underlying securities and collaterals and their conversion ratios, real-time and day-end monitoring, executing margin calls and forced liquidations, undertaking recourse actions.

(i) *Maximum exposure to credit risk of the Group without taking into account of any collateral or other credit enhancements*

| | As at 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Refundable deposits | 517,873,149 | 325,017,473 |
| Financial assets at fair value through profit or loss | 20,579,792,939 | 10,845,613,852 |
| Derivative financial assets | 731,792,096 | 707,812,289 |
| Reverse REPOs | 1,556,613,621 | 1,621,848,431 |
| Receivable from margin clients | 3,296,432,047 | 3,458,003,477 |
| Cash held on behalf of brokerage clients | 24,301,353,512 | 11,084,580,427 |
| Bank balances | 8,433,903,646 | 3,418,048,104 |
| Accounts receivable | 6,673,871,943 | 8,335,721,064 |
| Others | 478,508,038 | 341,953,007 |
| Total maximum credit risk exposure | 66,570,140,991 | 40,138,598,124 |

(ii) *Risk concentrations*

The Group's maximum credit risk exposure without taking into account of any collateral and other credit enhancements, as categorized by geographical area:

| | By geographical area | | |
|---|---|---|---|
| | **Mainland China** | **Outside Mainland China** | **Total** |
| **31 December 2015** | | | |
| Refundable deposits | 441,460,235 | 76,412,914 | 517,873,149 |
| Financial assets at fair value through profit or loss | 20,421,644,420 | 158,148,519 | 20,579,792,939 |
| Derivative financial assets | 349,715,701 | 382,076,395 | 731,792,096 |
| Reverse REPOs | 1,411,754,885 | 144,858,736 | 1,556,613,621 |
| Receivable from margin clients | 2,883,148,789 | 413,283,258 | 3,296,432,047 |
| Cash held on behalf of brokerage clients | 21,376,543,436 | 2,924,810,076 | 24,301,353,512 |
| Bank balances | 6,095,783,747 | 2,338,119,899 | 8,433,903,646 |
| Accounts receivable | 2,138,576,426 | 4,535,295,517 | 6,673,871,943 |
| Others | 446,867,719 | 31,640,319 | 478,508,038 |
| Total maximum credit risk exposure | 55,565,495,358 | 11,004,645,633 | 66,570,140,991 |

| | By geographical area | | |
|---|---|---|---|
| | Mainland China | Outside Mainland China | Total |
| **31 December 2014** | | | |
| Refundable deposits | 259,419,729 | 65,597,744 | 325,017,473 |
| Financial assets at fair value through profit or loss | 10,537,837,895 | 307,775,957 | 10,845,613,852 |
| Derivative financial assets | 263,022,315 | 444,789,974 | 707,812,289 |
| Reverse REPOs | 1,452,295,261 | 169,553,170 | 1,621,848,431 |
| Receivable from margin clients | 3,080,736,883 | 377,266,594 | 3,458,003,477 |
| Cash held on behalf of brokerage clients | 8,564,625,856 | 2,519,954,571 | 11,084,580,427 |
| Bank balances | 1,889,338,257 | 1,528,709,847 | 3,418,048,104 |
| Accounts receivable | 2,545,639,940 | 5,790,081,124 | 8,335,721,064 |
| Others | 321,521,289 | 20,431,718 | 341,953,007 |
| Total maximum credit risk exposure | 28,914,437,425 | 11,224,160,699 | 40,138,598,124 |

(iii) *Credit rating analysis of financial assets*

The Group adopts a credit rating approach in managing credit risk of debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amount of debt securities investments analyzed by the rating agency designations as at the end of the year are as follows:

| | As at 31 December | |
|---|---|---|
| | 2015 | 2014 |
| Bloomberg comprehensive rating | | |
| — AAA | 12,767,638 | 112,765,592 |
| — From AA- to AA+ | 154,287,550 | — |
| — From A- to A+ | 1,289,204,552 | 147,052,695 |
| — Below A- | 1,784,186,051 | 892,204,317 |
| Sub-total | 3,240,445,791 | 1,152,022,604 |
| Other comprehensive rating | | |
| — AAA | 11,624,449,994 | 5,963,265,910 |
| — From AA- to AA+ | 2,165,641,558 | 1,895,541,569 |
| — From A- to A+ | — | 124,744,442 |
| — Below A- | — | 56,798,575 |
| Sub-total | 13,790,091,552 | 8,040,350,496 |
| Non-rated (Note) | 3,549,255,596 | 1,558,240,752 |
| Total | 20,579,792,939 | 10,750,613,852 |

*Note:* Non-rated financial assets mainly represent debts instruments and trading securities issued by the MOF, the PBOC, and other policy banks, which are creditworthy issuers in the market but are not rated by independent rating agencies.

(b) **Liquidity risk**

Liquidity risk arises when the Group, despite being solvent at the time, cannot obtain sufficient funding in a timely basis or at a reasonable cost to finance the expansion of its assets or to pay off its obligation when it falls due.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the undiscounted contractual cash flows of the Group's non-derivative and derivative financial liabilities (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the year), categorized by their remaining contractual maturities at the end of the year calculated based on the earliest date the Group can be required to pay:

| | **As at 31 December 2015** | | | | | |
|---|---|---|---|---|---|---|
| | **Overdue/ repayable on demand** | **Within 1 year (inclusive)** | **1 - 5 years (inclusive)** | **More than 5 years** | **Undated** | **Total** |
| Financial liabilities | | | | | | |
| Accounts payable to brokerage clients | 25,218,051,446 | — | — | — | — | 25,218,051,446 |
| Placements from financial institutions | — | 1,715,952,905 | 1,688,572,556 | — | — | 3,404,525,461 |
| Financial liabilities at fair value through profit or loss | — | 5,584,316,162 | — | — | — | 5,584,316,162 |
| Derivative financial liabilities | — | 1,050,998,003 | 20,013,925 | — | — | 1,071,011,928 |
| REPOs | — | 14,072,208,130 | — | — | — | 14,072,208,130 |
| Short-term debt securities issued | — | 1,753,660,479 | — | — | — | 1,753,660,479 |
| Long-term debt securities issued | — | 353,304,554 | 4,623,218,220 | 3,258,642,980 | — | 8,235,165,754 |
| Others | 6,027,521,646 | 8,258,869,380 | — | — | — | 14,286,391,026 |
| Total | 31,245,573,092 | 32,789,309,613 | 6,331,804,701 | 3,258,642,980 | — | 73,625,330,386 |

| | As at 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Overdue/ repayable on demand** | **Within 1 year (inclusive)** | **1 - 5 years (inclusive)** | **More than 5 years** | **Undated** | **Total** |
| Financial liabilities | | | | | | |
| Accounts payable to brokerage clients | 15,054,264,345 | — | — | — | — | 15,054,264,345 |
| Placements from financial institutions | — | 1,554,580,856 | — | — | — | 1,554,580,856 |
| Financial liabilities at fair value through profit or loss | — | 7,525,929,706 | — | — | — | 7,525,929,706 |
| Derivative financial liabilities | — | 725,350,389 | 12,455,306 | — | — | 737,805,695 |
| REPOs | — | 8,428,705,275 | — | — | — | 8,428,705,275 |
| Short-term debt securities issued | — | 912,090,137 | — | — | — | 912,090,137 |
| Long-term debt securities issued | — | 244,364,231 | 977,456,925 | 4,300,910,953 | — | 5,522,732,109 |
| Others | 1,211,179,799 | 1,495,591,313 | — | — | — | 2,706,771,112 |
| Total | 16,265,444,144 | 20,886,611,907 | 989,912,231 | 4,300,910,953 | — | 42,442,879,235 |

(c) **Market risk**

Market risk is the risk of loss in the Group's income and value of financial instruments held arising from the adverse market movements such as changes in interest rates, stock prices, and foreign exchange rates. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximize the risk adjusted return. Stress testing is conducted regularly, and the potential movements of risk and operating indicators in a variety of scenarios are calculated.

The Group monitors the market risk for trading portfolios and non-trading portfolios separately.

(i) *Market risk of trading portfolios*

Trading portfolio includes financial assets at fair value through profit or loss, derivative financial assets, financial liabilities at fair value through profit or loss, and derivative financial liabilities. The risk exposures are measured and monitored in terms of principal, stop loss limit and etc., and are maintained within the limits set up by management. The Group adopts various kinds of methodologies (such as investment concentration limits, scenario analysis, Value-at-Risk ("VaR"), etc.) to manage market risk. The VaR analysis is a major tool used by the Group to measure and monitor market risk of the trading portfolios.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market rates, such as interest rates, foreign exchange rates and stock prices and so on over a specified time horizon and at a given level of confidence. The independent risk management personnel of the Group compute VaR by using a historical simulation method and implement relevant control of market risk. The historical simulation method is used to simulate future profit or loss based on the historical fluctuation of the key market risk factors and the sensitivity of current investment portfolio in respect of such risk factors.

The Group has adopted the historical simulation method and set 95% as its confidence level to compute its daily VaR based on historical data of the previous three years, i.e. there is 95% chance that the expected loss based on historical data will not exceed the VaR value regarding the Group's investment portfolio. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

— When there is severe market illiquidity for a prolonged period, the realizable value of the Group's investment portfolio in a trade day may vary from the expected value due to a 1-day time horizon for VaR;

— The assigned confidence level of 95% does not reflect losses that may occur beyond this level. Even within the model used there is a probability that losses could exceed the VaR;

— VaR is calculated on an end-of-day basis and does not reflect intra day exposures;

— The use of historical data as a basis for determining the possible distribution of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

— The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position changes if the market price volatility changes.

VaR analysis by risk categories:

| | For the year ended 31 December 2015 | | | |
|---|---|---|---|---|
| | As at 31 December 2015 | Average | Highest | Lowest |
| Price-sensitive financial instruments | 11,366,690 | 7,379,698 | 13,498,988 | 3,058,591 |
| Interest-rate-sensitive financial instruments | 18,817,474 | 14,404,938 | 21,538,018 | 7,421,385 |
| Exchange-rate-sensitive financial instruments | 5,644,320 | 4,275,177 | 9,710,264 | 139,412 |
| Total portfolio | 22,454,205 | 16,735,503 | 24,481,161 | 8,944,654 |

| | For the year ended 31 December 2014 | | | |
|---|---|---|---|---|
| | As at 31 December 2014 | Average | Highest | Lowest |
| Price-sensitive financial instruments | 5,066,514 | 8,256,177 | 22,531,366 | 1,024,160 |
| Interest-rate-sensitive financial instruments | 9,349,148 | 11,658,709 | 16,356,235 | 7,809,575 |
| Exchange-rate-sensitive financial instruments | 2,853,477 | 4,216,332 | 8,757,569 | 381,721 |
| Total portfolio | 12,299,477 | 16,165,060 | 29,341,276 | 8,668,035 |

(ii) *Market risk of non-trading portfolios*

(1) Interest rate risk

The non-trading portfolios of the Group are subject to the risk of interest rate fluctuations. Except for the financial assets and liabilities managed through VaR, the Group's major interest-earning assets in its non-trading portfolios include deposits at banks and in clearing houses and reverse REPOs; and its interest-bearing liabilities mainly include short-term debt securities issued, placements from financial institutions, REPOs and long-term debt securities issued.

The Group adopts sensitivity analysis to measure the interest rate risk of non-trading portfolios. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

| | Sensitivity of net profit and equity | |
|---|---|---|
| | As at 31 December | |
| | 2015 | 2014 |
| Change in basis points | | |
| Increase by 50 basis points | (41,675,673) | (15,865,256) |
| Decrease by 50 basis points or decrease to 0 | 42,495,268 | 16,848,413 |

The sensitivity analysis is based on the static rate risk profile of the Group's assets and liabilities. The sensitivity analysis measures the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions that:

— The 50 basis points of changes in interest rates at the end of the year apply to all of the Group's non-trading financial instruments in the next 12 months;

— There is a parallel shift in the yield curve with the changes in interest rate;

— There are no changes to the assets and liabilities portfolios;

— Other variables (including exchange rate) remain unchanged; and

— Risk management measures undertaken by the Group are not considered.

Due to the above assumptions, the actual changes of interest rate and the impact to the Group's net profit and equity might vary from the estimated results of the sensitivity analysis.

(2) Currency risk

Currency risk is the risk arising from the fluctuation of foreign exchange rates. The Group adopts sensitivity analysis to measure currency risk.

Assuming a 10% weakening of the RMB against the USD, the HKD and other currencies at the end of the year which would apply to the next 12 months with all other variables unchanged and all risk management measures undertaken by the Group set aside, the Group's net profit or loss and equity would have been affected as follows:

| | | Sensitivity of net profit and equity | |
|---|---|---|---|
| | | As at 31 December | |
| **Currency** | **Changes** | **2015** | **2014** |
| USD | 10% | (245,253,461) | (47,700,324) |
| HKD | 10% | 208,477,797 | 54,783,730 |
| Others | 10% | (23,635,476) | 15,130,604 |

A 10% strengthening of the RMB against the USD, the HKD and other currencies at the reporting date would have had the equal but opposite effect on the Group's net profit or loss and equity, on the basis that all other variables remain unchanged.

Due to the above assumptions, the actual changes in foreign currency rate and the impact to the Group's net profit or loss and equity might vary from the estimated results of the sensitivity analysis.

**54 Capital Management**

The Group's capital management policy is to maintain an adequate capital base, so as to retain the confidence of the investors, the creditors and the counterparties and to ensure the sound development of future business. The objective of the Group's capital management is to meet legal and regulatory requirements, while maintaining adequate capital and maximize returns. Based on its strategic plan, its business development needs and the tendency in its risk exposure, the Group carries out the forecast, planning and management of its regulatory capital through scenario analysis and stress testing.

The Group calculates its regulatory capital in accordance with relevant regulations applicable in the local jurisdiction which may be significantly different from the regulations in other jurisdictions. The Company calculates net capital in accordance with the Regulations on the Adjustment of the Calculation Standards of Net Capital for Securities Companies (2012 Amendment) (CSRC Announcement [2012] No. 37) issued by the CSRC on 16 November 2012 and other relevant regulations. Net capital refers to net assets after risk adjustments on certain types of assets as defined in the Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures").

In accordance with the Administrative Measures issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

(i) The ratio of net capital divided by the sum of its various risk capital reserves shall be no less than 100% ("Ratio 1");

(ii) The ratio of net capital divided by net assets shall be no less than 40% ("Ratio 2")

(iii) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");

(iv) The ratio of net assets divided by liabilities shall be no less than 20% ("Ratio 4");

(v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5");

(vi) The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% ("Ratio 6");

(vii) The calculation of liquidity coverage ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Companies issued by the Securities Association of China (the "SAC") effective on March 1, 2014. Liquidity coverage ratio = high quality liquid assets/total net cash outflows over the next 30 days. The high quality liquid assets refers to all types of assets which can be converted into cash promptly by means of sale or collateral at small or no loss of value in the finance market under a stress scenario. The total net cash outflows over the next 30 days equals total expected cash outflows minus the total expected cash inflows for the subsequent 30 days. Liquidity coverage ratio shall not be lower than 100% ("Ratio 7"); and

(viii) The calculation of net stable funding ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Companies. Net stable funding ratio = available amount of stable funding/required amount of stable funding. The available amount of stable funding is defined as the portion of those types of equity and liability financing which are expected to provide reliable sources of funds over a one-year period under a continued stress scenario. The required amount of stable funding is calculated as the sum of the value of assets or off-balance sheet exposures of a securities firm, multiplied by the respective required stable funding factor. The required stable funding factor equals the percentage of the value of assets or off-balance sheet exposures that need support from stable funding. Net stable funding ratio shall not be lower than 100% ("Ratio 8").

As at 31 December 2015 and 2014, the Company maintained the above ratios as follows:

| | As at 31 December | |
|---|---|---|
| | **2015** | **2014** |
| Net Capital | 10,980,874,997 | 4,540,586,986 |
| Ratio 1 | 897.54% | 551.65% |
| Ratio 2 | 69.15% | 78.21% |
| Ratio 3 | 37.60% | 27.10% |
| Ratio 4 | 54.38% | 34.65% |
| Ratio 5 | 27.46% | 30.34% |
| Ratio 6 | 203.67% | 210.06% |
| Ratio 7 | 303.78% | 356.38% |
| Ratio 8 | 169.87% | 127.36% |

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements imposed by their local regulators, including the CSRC, the Hong Kong Securities and Futures Commission, and etc.

## 55 Statement of Financial Position of the Company

| | Note | As at 31 December 2015 | 2014 |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | | 179,962,060 | 162,327,977 |
| Intangible assets | | 15,808,582 | 30,740,440 |
| Interest in subsidiaries | 56 | 3,425,029,128 | 2,907,875,402 |
| Interest in associates and joint ventures | | 288,683,670 | 266,366,748 |
| Refundable deposits | | 542,279,464 | 259,387,151 |
| Deferred tax assets | | 593,768,715 | 397,404,964 |
| Other non-current assets | | 37,853,537 | 40,142,750 |
| Total non-current assets | | 5,083,385,156 | 4,064,245,432 |
| Current assets | | | |
| Accounts receivable | | 5,357,561,407 | 2,314,285,696 |
| Receivable from margin clients | | 2,883,148,789 | 3,080,736,883 |
| Available-for-sale financial assets | | 488,582 | 20,816,763 |
| Financial assets at fair value through profit or loss | | 24,781,747,850 | 11,583,236,465 |
| Derivative financial assets | | 735,502,678 | 263,706,751 |
| Reverse REPOs | | 1,400,754,885 | 1,447,295,261 |
| Interest receivable | | 365,866,922 | 320,273,475 |
| Cash held on behalf of brokerage clients | | 17,891,067,616 | 8,564,784,692 |
| Cash and bank balances | | 4,484,495,784 | 1,740,060,482 |
| Other current assets | | 45,054,704 | 37,342,160 |
| Total current assets | | 57,945,689,217 | 29,372,538,628 |
| Total assets | | 63,029,074,373 | 33,436,784,060 |
| Current liabilities | | | |
| Financial liabilities at fair value through profit or loss | | — | 67,063,351 |
| Derivative financial liabilities | | 714,461,871 | 189,340,476 |
| Accounts payable to brokerage clients | | 17,948,609,160 | 8,580,691,247 |
| Placements from financial institutions | | 1,046,164,800 | 853,000,000 |
| Short-term debt securities issued | | 1,700,000,000 | 900,000,000 |
| REPOs | | 11,853,667,781 | 8,151,854,724 |
| Employee benefits payable | | 1,937,683,466 | 1,586,008,204 |
| Income tax payable | | 501,188,226 | 46,334,718 |
| Other current liabilities | | 5,874,938,765 | 1,843,708,012 |
| Total current liabilities | | 41,576,714,069 | 22,218,000,732 |
| Net current assets | | 16,368,975,148 | 7,154,537,896 |
| Total assets less current liabilities | | 21,452,360,304 | 11,218,783,328 |

| | Note | As at 31 December 2015 | 2014 |
|---|---|---|---|
| Non-current liabilities | | | |
| Non-current employee benefits payable | | 573,213,279 | 117,917,615 |
| Long-term debt securities issued | | 5,000,000,000 | 3,000,000,000 |
| Total non-current liabilities | | 5,573,213,279 | 3,117,917,615 |
| Net assets | | 15,879,147,025 | 8,100,865,713 |
| Equity | | | |
| Share capital/paid-in capital | 45 | 2,306,669,000 | 1,667,473,000 |
| Reserves | 45 | 11,505,199,797 | 3,891,354,248 |
| Other equity instruments | 46 | 1,000,000,000 | — |
| Retained profits | | 1,067,278,228 | 2,542,038,465 |
| Total equity | | 15,879,147,025 | 8,100,865,713 |

## 56 Interest in Subsidiaries

| | As at 31 December 2015 | 2014 |
|---|---|---|
| Unlisted shares, at cost or deemed cost (Note) | 3,425,029,128 | 2,907,875,402 |
| Total | 3,425,029,128 | 2,907,875,402 |

*Note:* As required by the relevant PRC rules and regulations with respect to the conversion to a joint stock company with limited liability, the property and equipment, intangible assets and investment in subsidiaries of the Company as at 31 December 2014 were revalued by China Enterprise Appraisals Company, Limited. The property and equipment, intangible assets and investment in subsidiaries of the Company were restated at their revalued amounts or deemed costs on 31 December 2014, resulting in a surplus on revaluation of RMB2,294,895,015 being credited to capital reserve. The above valuation surplus is reversed in the Group's consolidated financial statements.

Particulars of the Company's principal subsidiaries are as follows:

| Name of company | Place of incorporation and operation | Particulars of issuedand paid up capital | Equity interest held by the Company as at 31 December 2015 | 2014 | Principal activity | Auditor[(1)] |
|---|---|---|---|---|---|---|
| CICC Hong Kong | Hong Kong | HKD62,400,000 | 100% | 100% | Overseas investment holding business | KPMG |
| CICC Jiacheng Investment Management Corporation Limited | Beijing, PRC | RMB410,000,000 | 100% | 100% | Direct investment Business | KPMG PRC |

| Name of company | Place of incorporation and operation | Particulars of issuedand paid up capital | Equity interest held by the Company as at 31 December 2015 | 2014 | Principal activity | Auditor[1] |
|---|---|---|---|---|---|---|
| CICC Pucheng Investment Co., Ltd. | Shanghai, PRC | RMB300,000,000 | 100% | 100% | Financial products Investment Business | KPMG PRC |
| China International Capital Corporation Hong Kong Securities Limited [4] | Hong Kong | HKD843,220,000 | 100% | 100% | Investment banking and securities brokerage business | KPMG |
| CICC Financial Products Ltd. [4] | British Virgin Islands | USD1 | 100% | 100% | Financial products investment business | KPMG |
| CICC Hong Kong Asset Management Limited [4] | Hong Kong | HKD245,740,000 | 100% | 100% | Assets management and securities investment advisory business | KPMG |
| China International Capital Corporation (Singapore) Pte. Ltd. [4] | Singapore | SGD47,000,000 | 100% | 100% | Investment banking and securities brokerage business | KPMG Singapore |
| China International Capital Corporation (UK) Ltd. [4] | UK | GBP21,000,000 | 100% | 100% | Investment banking and securities brokerage business | KPMG UK |
| CICC US Securities, Inc. [4] | USA | USD53,000,000 | 100% | 100% | Investment banking and securities brokerage business | KPMG US |
| China International Capital Corporation Hong Kong Futures Limited [4] | Hong Kong | HKD26,000,000 | 100% | 100% | Futures brokerage and market making business | KPMG |
| CICC Financial Trading Ltd [4] | Hong Kong | HKD1 | 100% | 100% | Securities business | KPMG |
| CICC Investment Group Company Limited [3] [4] | British Virgin Islands | USD100 | 100% | 100% | Investment holding business | — |
| CICC Investment Management Co., Ltd. [3] [4] | Cayman Islands | USD1 | 100% | 100% | Direct investment business | — |
| CICC Jiahe (Tianjin) Equity Investment Fund Management Limited [4] | Tianjin, PRC | RMB100,000,000 | 100% | 100% | Investment management and advisory business | KPMG PRC |

| Name of company | Place of incorporation and operation | Particulars of issuedand paid up capital | Equity interest held by the Company as at 31 December 2015 | 2014 | Principal activity | Auditor[(1)] |
|---|---|---|---|---|---|---|
| CICC Fund Management Co., Ltd. .................................... | Beijing, PRC | RMB200,000,000 | 100% | 100% | Promotion and Management of mutual funds business | KPMG PRC |
| CICC Futures [(5)]......................... | Xining, PRC | RMB200,000,000 | 100% | 100% | Futures brokerage | KPMG PRC |
| CICC Zhide Capital Co., Ltd. [(2)]. | Shanghai, PRC | RMB20,500,000 | 100% | 100% | Direct Investment Business | KPMG PRC |

*Note:*

(1) Statutory auditors of the respective subsidiaries of the Group are as follows:

— KPMG PRC represents KPMG Huazhen LLP (畢馬威華振會計師事務所 (特殊普通合夥)), a firm of certified public accountants registered in the PRC. The official name of KPMG Huazhen LLP is in Chinese;

— KPMG represents KPMG in Hong Kong, a firm of certified public accountants registered in Hong Kong;

— KPMG Singapore represents KPMG Service Pte. Ltd. in Singapore, a firm of certified public accountants registered in Singapore;

— KPMG UK represents KPMG LLP in the UK, a firm of certified public accountants registered in the United Kingdom of Great Britain and Northern Ireland;

— KPMG US represents KPMG LLP in the US, a firm of certified public accountants registered in the United States of America;

(2) This subsidiary was newly incorporated in 2015.

(3) These subsidiaries were not subject to statutory audit according to the local regulations.

(4) The equity interest of these subsidiaries were indirectly held by the Company.

(5) Acquisition of CICC Futures:

In August 2015, the Group acquired the entire equity interest of Fortune Futures from Jianyin Investment (see Note 50(b)(iii)). The acquisition enables the Group to develop its futures brokerage business. Fortune Futures was renamed as CICC Futures in December 2015.

From the date of acquisition to 31 December 2015, CICC Futures contributed revenue and other income of RMB37,635,454 and net profit of RMB18,903,487 to the Group's results. If the acquisition had occurred on 1 January 2015, management estimates that consolidated revenue and other income of the Group for the year ended 31 December 2015 would have been increased by RMB106,924,693 and consolidated net profit for the year would have been increased by RMB33,440,986.

(a) **Consideration transferred**

According to the agreement between the Company and Jianyin Investment the consideration of the acquisition was RMB247,653,726, equaling to the fair value of net assets of Fortune Futures (renamed as CICC Futures after the acquisition) at 31 December 2012 which was valued by a qualified appraiser (RMB211,856,327) and the profits attributable to Jianyin Investment from 1 January 2013 to the date of acquisition (RMB35,797,399).

(b) **Acquisition-related costs**

There was no acquisition-related costs incurred for this transaction.

(c) **Identifiable assets acquired and liabilities assumed**

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

| | Amount |
|---|---|
| Total identifiable assets | 4,465,743,677 |
| Total identifiable liabilities | (4,218,089,951) |
| Total identifiable net assets acquired | 247,653,726 |

## 57 Subsequent Events

In January 2016, the Company repaid its beneficiary certificates (CICC Jinyintong No. 3, CICC Tianxinbao No. 14 and CICC Jinyintong No. 5) with an aggregated principal amount of RMB700 million. In March 2016, the Company repaid its beneficiary certificate (CICC Jinyintong No.4) with the principal amount of RMB500 million.

## UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the unaudited consolidated financial statements of the Group for the six months ended June 30, 2016 as extracted from the interim report of the Company for the six months ended June 30, 2016:

**Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income — Unaudited**
for the six months ended 30 June 2016 (Expressed in Renminbi ("RMB"), unless otherwise stated)

| | | Six months ended 30 June | |
|---|---|---|---|
| | Note | 2016 | 2015 |
| Revenue | | | |
| Fee and commission income | 6 | 2,107,090,481 | 3,118,850,559 |
| Interest income | 7 | 455,266,289 | 419,114,201 |
| Investment income | 8 | 606,370,312 | 1,313,699,163 |
| Total revenue | | 3,168,727,082 | 4,851,663,923 |
| Other income | 9 | 52,081,617 | 29,374,738 |
| Total revenue and other income | | 3,220,808,699 | 4,881,038,661 |
| Fee and commission expenses | 10 | 134,907,614 | 147,973,874 |
| Interest expenses | 11 | 628,495,629 | 510,111,806 |
| Staff costs | 12 | 1,150,388,084 | 2,108,939,729 |
| Depreciation and amortization expenses | | 31,936,478 | 23,546,818 |
| Business tax and surcharges | | 85,032,612 | 196,711,945 |
| Other operating expenses | 13 | 476,941,382 | 425,559,780 |
| Reversal of impairment losses | 14 | (512,641) | (8,072,634) |
| Total expenses | | 2,507,189,158 | 3,404,771,318 |
| Operating profit | | 713,619,541 | 1,476,267,343 |
| Share of profits of associates and joint ventures | | 25,733,653 | 36,159,406 |
| Profit before income tax | | 739,353,194 | 1,512,426,749 |
| Less: Income tax | 15 | 164,458,625 | 376,281,214 |
| Profit for the period | | 574,894,569 | 1,136,145,535 |
| Attributable to: | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | 16 | 574,877,398 | 1,136,145,535 |
| Non-controlling interests | | 17,171 | — |
| Basic and diluted earnings per share(in RMB per share) | 16 | 0.24 | 0.68 |

The notes on pages III-105 to III-149 form part of this interim financial report.

| | Note | Six months ended 30 June 2016 | 2015 |
|---|---|---|---|
| Profit for the period | | 574,894,569 | 1,136,145,535 |
| Other comprehensive income for the period | | | |
| Items that may be reclassified to profit or loss in subsequent periods: | | | |
| Available-for-sale financial assets: | | | |
| Changes in fair value | | 18,879,929 | 59,454,799 |
| Income tax effect | | (4,498,766) | 726,320 |
| Reclassified to profit or loss as investment income | | (2,731,675) | (27,531,341) |
| Exchange differences on translation of financial statements of overseas subsidiaries | | 66,337,402 | (1,897,976) |
| Total other comprehensive income for the period, net of tax | | 77,986,890 | 30,751,802 |
| Total comprehensive income for the period | | 652,881,459 | 1,166,897,337 |
| Attributable to: | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | | 652,864,288 | 1,166,897,337 |
| Non-controlling interests | | 17,171 | — |

The notes on pages III-105 to III-149 form part of this interim financial report.

**Condensed Consolidated Statement of Financial Position — Unaudited**
at 30 June 2016 (Expressed in RMB, unless otherwise stated)

| | Note | At 30 June 2016 | At 31 December 2015 |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | 17 | 183,937,363 | 166,368,921 |
| Intangible assets | 18 | 962,068 | 1,410,550 |
| Interest in associates and joint ventures | | 486,709,379 | 452,647,843 |
| Available-for-sale financial assets | 19 | 675,829,713 | 581,340,923 |
| Refundable deposits | 20 | 804,184,708 | 517,873,149 |
| Deferred tax assets | 21 | 428,194,938 | 680,324,436 |
| Other non-current assets | | 65,360,646 | 59,654,549 |
| Total non-current assets | | 2,645,178,815 | 2,459,620,371 |
| Current assets | | | |
| Accounts receivable | 22 | 5,759,950,351 | 6,673,871,943 |
| Receivable from margin clients | 23 | 2,547,119,336 | 3,296,432,047 |
| Available-for-sale financial assets | 19 | 858,759,196 | 618,025,166 |
| Financial assets at fair value through profit or loss | 24 | 57,034,618,669 | 45,459,259,668 |
| Derivative financial assets | 25 | 2,085,671,243 | 736,244,468 |
| Financial assets held under resale agreements (“reverse REPOs”) | 26 | 3,263,174,112 | 1,556,613,621 |
| Interest receivable | | 593,979,163 | 478,508,038 |
| Cash held on behalf of brokerage clients | 27 | 20,523,945,792 | 24,301,353,512 |
| Cash and bank balances | 28 | 12,186,769,410 | 8,434,085,678 |
| Other current assets | | 73,167,977 | 94,742,209 |
| Total current assets | | 104,927,155,249 | 91,649,136,350 |
| Total assets | | 107,572,334,064 | 94,108,756,721 |

The notes on pages III-105 to III-149 form part of this interim financial report.

| | Note | At 30 June 2016 | At 31 December 2015 |
|---|---|---|---|
| Current liabilities | | | |
| Financial liabilities at fair value through profit or loss | 30 | 9,340,828,311 | 5,584,316,162 |
| Derivative financial liabilities | 25 | 1,430,831,595 | 1,071,011,928 |
| Accounts payable to brokerage clients | 31 | 21,439,355,519 | 25,218,051,446 |
| Placements from financial institutions | 32 | 6,439,592,000 | 1,636,815,800 |
| Short-term debt securities issued | 33 | 4,919,200,877 | 1,700,000,000 |
| Financial assets sold under repurchase agreements ("REPOs") | 34 | 15,920,045,282 | 14,013,713,250 |
| Employee benefits payable | | 1,310,594,049 | 3,013,948,204 |
| Income tax payable | | 101,601,080 | 625,831,436 |
| Long-term debt securities issued due within one year | 35 | 3,000,000,000 | — |
| Other current liabilities | | 20,731,013,725 | 16,391,938,868 |
| Total current liabilities | | 84,633,062,438 | 69,255,627,094 |
| Net current assets | | 20,294,092,811 | 22,393,509,256 |
| Total assets less current liabilities | | 22,939,271,626 | 24,853,129,627 |
| Non-current liabilities | | | |
| Non-current employee benefits payable | | 522,722,617 | 671,839,359 |
| Placements from financial institutions | 32 | — | 1,623,400,000 |
| Long-term debt securities issued | 35 | 5,292,601,160 | 6,071,444,000 |
| Deferred tax liabilities | 21 | 43,156,434 | 31,685,238 |
| Other non-current liabilities | | 12,909,022 | 12,760,096 |
| Total non-current liabilities | | 5,871,389,233 | 8,411,128,693 |
| Net assets | | 17,067,882,393 | 16,442,000,934 |
| Equity | | | |
| Share capital | 36 | 2,306,669,000 | 2,306,669,000 |
| Other equity instruments | 37 | 1,000,000,000 | 1,000,000,000 |
| Reserves | 36 | 9,163,420,425 | 9,084,877,604 |
| Retained profits | | 4,567,775,797 | 4,050,454,330 |
| Total equity attributable to shareholders of the Company and holders of other equity instruments | | 17,037,865,222 | 16,442,000,934 |
| Non-controlling interests | | 30,017,171 | — |
| Total equity | | 17,067,882,393 | 16,442,000,934 |

Approved and authorized for issue by the board of directors on 26 August 2016.

**Bi Mingjian**
*Chief Executive Officer*

**Xin Jie**
*Chief Financial Officer*

The notes on pages III-105 to III-149 form part of this interim financial report.

**Condensed Consolidated Statement of Changes in Equity - Unaudited**

for the six months ended 30 June 2016 (Expressed in RMB, unless otherwise stated)

| | Attributable to shareholders of the Company and holders of other equity instruments | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | |
| | Share capital | Other equity instruments | Capital reserve | Surplus reserve | General Reserve | Investment revaluation reserve | Foreign currency translation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | (Note 36(a)) | (Note 37) | (Note 36(b)) | (Note 36(b)) | (Note 36(b)) | (Note 36(b)) | (Note 36(b)) | | | | |
| Balance at 1 January 2016 | 2,306,669,000 | 1,000,000,000 | 7,705,668,325 | 152,845,657 | 1,453,076,638 | 71,500,530 | (298,213,546) | 4,050,454,330 | 16,442,000,934 | — | 16,442,000,934 |
| Changes in equity for the six months ended 30 June 2016 | | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | 574,877,398 | 574,877,398 | 17,171 | 574,894,569 |
| Other comprehensive income for the period | — | — | — | — | — | 11,649,488 | 66,337,402 | — | 77,986,890 | — | 77,986,890 |
| Total comprehensive income for the period | — | — | — | — | — | 11,649,488 | 66,337,402 | 574,877,398 | 652,864,288 | 17,171 | 652,881,459 |
| Appropriation to general reserve | — | — | — | — | 555,931 | — | — | (555,931) | — | — | — |
| Distributions to holders of perpetual subordinated bonds | — | — | — | — | — | — | — | (57,000,000) | (57,000,000) | — | (57,000,000) |
| Contribution by non-controlling interests | — | — | — | — | — | — | — | — | — | 30,000,000 | 30,000,000 |
| Balance at 30 June 2016 | 2,306,669,000 | 1,000,000,000 | 7,705,668,325 | 152,845,657 | 1,453,632,569 | 83,150,018 | (231,876,144) | 4,567,775,797 | 17,037,865,222 | 30,017,171 | 17,067,882,393 |

The notes on pages III-105 to III-149 form part of this interim financial report.

| | Attributable to shareholders of the Company and holders of other equity instruments | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | |
| | Share capital | Other equity instruments | Capital reserve | Surplus reserve | General Reserve | Investment revaluation reserve | Foreign currency translation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | (Note 36(a)) | (Note 37) | (Note 36(b)) | (Note 36(b)) | (Note 36(b)) | (Note 36(b)) | (Note 36(b)) | | | | |
| Balance at 1 January 2015 | 1,667,473,000 | — | 26,474,648 | 473,400,427 | 1,142,350,315 | 24,230,151 | (447,739,012) | 5,106,056,187 | 7,992,245,716 | — | 7,992,245,716 |
| Changes in equity for the six months ended 30 June 2015 | | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | 1,136,145,535 | 1,136,145,535 | — | 1,136,145,535 |
| Other comprehensive income for the period | — | — | — | — | — | 32,649,778 | (1,897,976) | — | 30,751,802 | — | 30,751,802 |
| Total comprehensive income for the period | — | — | — | — | — | 32,649,778 | (1,897,976) | 1,136,145,535 | 1,166,897,337 | — | 1,166,897,337 |
| Appropriation to general reserve | — | — | — | — | 373,046 | — | — | (373,046) | — | — | — |
| Issuance of perpetual subordinated bonds | — | 1,000,000,000 | — | — | — | — | — | — | 1,000,000,000 | — | 1,000,000,000 |
| Conversion to joint stock company with limited liability | — | — | 3,020,721,641 | (473,400,427) | — | (2,641,374) | — | (2,544,679,840) | — | — | — |
| Others | — | — | (2,641,374) | — | — | — | — | — | (2,641,374) | — | (2,641,374) |
| Balance at 30 June 2015 and 1 July 2015 | 1,667,473,000 | 1,000,000,000 | 3,044,554,915 | — | 1,142,723,361 | 54,238,555 | (449,636,988) | 3,697,148,836 | 10,156,501,679 | — | 10,156,501,679 |
| Changes in equity for the six months ended 31 December 2015 | | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | 816,504,428 | 816,504,428 | — | 816,504,428 |
| Other comprehensive income for the period | — | — | — | — | — | 17,261,975 | 151,423,442 | — | 168,685,417 | — | 168,685,417 |
| Total comprehensive income for the period | — | — | — | — | — | 17,261,975 | 151,423,442 | 816,504,428 | 985,189,845 | — | 985,189,845 |
| Appropriation to surplus reserve | — | — | — | 152,845,657 | — | — | — | (152,845,657) | — | — | — |
| Appropriation to general reserve | — | — | — | — | 310,353,277 | — | — | (310,353,277) | — | — | — |
| Issuance of H shares | 639,196,000 | — | 4,661,113,410 | — | — | — | — | — | 5,300,309,410 | — | 5,300,309,410 |
| Balance at 31 December 2015 | 2,306,669,000 | 1,000,000,000 | 7,705,668,325 | 152,845,657 | 1,453,076,638 | 71,500,530 | (298,213,546) | 4,050,454,330 | 16,442,000,934 | — | 16,442,000,934 |

The notes on pages III-105 to III-149 form part of this interim financial report.

**Condensed Consolidated Cash Flow Statement — Unaudited**
for the six months ended 30 June 2016 (Expressed in RMB, unless otherwise stated)

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| Cash flows from operating activities: | | |
| Profit before income tax | 739,353,194 | 1,512,426,749 |
| Adjustments for: | | |
| Interest expense on debt securities issued and other financing expenses | 272,393,180 | 188,108,067 |
| Depreciation and amortization expenses | 31,936,478 | 23,546,818 |
| Reversal of impairment losses | (512,641) | (8,072,634) |
| Net losses on disposal of property, equipment and other assets | 3,540,716 | 2,917,821 |
| Fair value losses/(gains) on financial instruments at fair value through profit or loss | 6,841,045 | (190,506,924) |
| Foreign exchange losses | 7,089,516 | 120,875 |
| Net gains on disposal of investments in financial assets | (6,874,141) | (2,924,093) |
| Dividend income from available-for-sale financial assets, and share of profit of associates and joint ventures | (43,462,022) | (49,035,609) |
| Operating cash flows before movements in working capital | 1,010,305,325 | 1,476,581,070 |
| Decrease/(increase) in receivables from margin clients | 749,312,711 | (3,742,701,521) |
| Decrease/(increase) in accounts receivables, other receivables and prepayments | 563,779,007 | (812,502,304) |
| (Increase)/decrease in reverse REPOs | (1,454,359,505) | 230,934,657 |
| Increase in financial instruments at fair value through profit or loss | (10,041,914,061) | (7,476,011,829) |
| Decrease in available-for-sale financial assets | — | 16,253,848 |
| Decrease/(increase) in cash held on behalf of brokerage clients | 3,777,407,720 | (25,234,529,207) |
| Increase in restricted bank deposits | (384,858,732) | (17,576,034) |
| Increase in refundable deposits | (257,683,221) | (208,199,413) |
| (Decrease)/increase in accounts payables to brokerage clients | (3,778,695,927) | 27,750,632,750 |
| Increase in REPOs | 2,766,332,032 | 1,549,359,487 |
| Increase in other liabilities | 7,238,242,830 | 4,410,494,094 |
| Cash generated from/(used in) operating activities, before tax | 187,868,179 | (2,057,264,402) |
| Income taxes paid | (428,023,719) | (207,184,883) |
| Net cash used in operating activities | (240,155,540) | (2,264,449,285) |

The notes on pages III-105 to III-149 form part of this interim financial report.

| | Note | Six months ended 30 June 2016 | 2015 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Proceeds from sale of investments | | 306,000,000 | — |
| Net gains on disposal of available-for-sale financial assets | | 6,905,230 | — |
| Dividends received | | 17,728,369 | 15,705,259 |
| Proceeds from disposal of property and equipment | | 76,030 | 331,740 |
| Payment for acquisition of investments | | (327,433,537) | (111,468,450) |
| Payment for the purchase of property, equipment and other long-term assets | | (63,678,385) | (21,877,139) |
| Net cash used in investing activities | | (60,402,293) | (117,308,590) |
| Cash flows from financing activities: | | | |
| Cash received from beneficiary certificates issued | | 4,619,200,877 | 1,570,000,000 |
| Cash received from medium-term notes issued | | 3,315,600,000 | — |
| Capital contribution from non-controlling interests | | 30,000,000 | — |
| Cash received from short-term commercial papers issued | | — | 3,300,000,000 |
| Cash received from subordinated bonds issued | | — | 2,000,000,000 |
| Cash received from other equity instruments issued | | — | 1,000,000,000 |
| Repayment of syndication loan | | (1,623,400,000) | — |
| Repayment of beneficiary certificates | | (1,400,000,000) | (200,000,000) |
| Repayment of notes issued | | (1,094,148,000) | — |
| Repayment of short-term commercial papers | | — | (2,500,000,000) |
| Cash paid for interest | | (177,652,972) | (68,405,115) |
| Distribution paid to holders of other equity instruments | | (57,000,000) | — |
| Cash paid relating to other financing activities | | (26,168,957) | (3,567,791) |
| Net cash generated from financing activities | | 3,586,430,948 | 5,098,027,094 |
| Net increase in cash and cash equivalents | | 3,285,873,115 | 2,716,269,219 |
| Cash and cash equivalents at the beginning of the period | | 7,992,199,885 | 3,351,782,566 |
| Effect of changes in foreign exchange rate | | 81,951,885 | (2,908,925) |
| Cash and cash equivalents at the end of the period | 29 | 11,360,024,885 | 6,065,142,860 |
| Net cash generated from operating activities including: | | | |
| Interest received | | 944,964,453 | 412,673,398 |
| Interest paid | | (373,370,899) | (303,723,957) |

The notes on pages III-105 to III-149 form part of this interim financial report.

**Notes to the Unaudited Interim Financial Report**
(Expressed in RMB, unless otherwise stated)

## 1 GENERAL INFORMATION

China International Capital Corporation Limited (中國國際金融有限公司) (the "Company") was established on 31 July 1995 in the People's Republic of China ("PRC") as approved by the People's Bank of China ("PBOC").

Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability.

The Company was listed on the Main Board of the Stock Exchange of Hong Kong on 9 November 2015.

The registered address of the Company is the 27th and 28th Floor, China World Trade Center 2, 1 Jian Guo Men Wai Avenue, Beijing.

The Company and its subsidiaries (the "Group") principally engaged in investment banking business, equities business, fixed-income, currency and commodity ("FICC") business, wealth management business, investment management business and other business activities.

## 2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board. It was authorized for issue on 26 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 3.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

## 3 CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### Annual Improvements to IFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, IAS 34, *Interim Financial Reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

### Amendments to IAS 1, Presentation of financial statements: Disclosure initiative

The amendments to IAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

## 4 USE OF JUDGEMENTS AND ESTIMATES

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

## 5 TAXATION

### (a) Business tax and surcharges

Services provided by the Company and its domestic subsidiaries are subject to business tax before 1 May 2016. The business tax rate applicable to the Company and its domestic subsidiaries is 5%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of business tax respectively.

### (b) Value-added tax ("VAT") and surcharges

The advisory and consulting services provided by the Company are subject to VAT since 1 December 2015. All remaining services provided by the Company and its domestic subsidiaries are subject to VAT since 1 May 2016. The applicable tax rate is 6%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of VAT respectively.

### (c) Income tax

The income tax rate applicable to the Company and its domestic subsidiaries is 25%.

The income tax rate applicable to the subsidiaries in Hong Kong is 16.5%. Taxes of other overseas subsidiaries are charged at the relevant local rates.

## 6 FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| Brokerage commission income | 833,546,092 | 1,514,557,834 |
| Underwriting and sponsoring fees | 746,956,811 | 968,811,344 |
| Asset management fees | 304,072,110 | 361,304,534 |
| Financial advisory fees | 163,243,811 | 194,355,238 |
| Investment advisory fees | 59,271,657 | 79,821,609 |
| Total | 2,107,090,481 | 3,118,850,559 |

## 7 INTEREST INCOME

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Interest income from financial institutions | 268,343,888 | 158,367,023 |
| Interest income from margin financing and securities lending | 129,919,205 | 220,838,330 |
| Interest income from reverse REPOs | 56,814,530 | 39,815,028 |
| Others | 188,666 | 93,820 |
| Total interest income on financial assets not at fair value through profit or loss | 455,266,289 | 419,114,201 |

## 8 INVESTMENT INCOME

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Net gains from disposal of available-for-sale financial assets | 2,731,675 | 14,655,138 |
| Dividend income from available-for-sale financial assets | 17,729,666 | 12,876,203 |
| Net (losses)/gains from financial instruments at fair value through profit or loss | (2,571,626) | 3,486,598,687 |
| Net gains/(losses) from derivative financial instruments | 588,480,597 | (2,200,430,865) |
| Total | 606,370,312 | 1,313,699,163 |

## 9 OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Tax refunds | 3,302,420 | 1,508,143 |
| Government grants | 26,103,709 | 24,368,714 |
| Others | 22,675,488 | 3,497,881 |
| Total | 52,081,617 | 29,374,738 |

The government grants were received by the Company and its subsidiaries from the local government where they reside with no condition attached.

## 10 FEE AND COMMISSION EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Brokerage expenses | 91,321,418 | 129,647,743 |
| Underwriting and sponsoring expenses | 22,095,930 | 18,326,131 |
| Asset management expenses | 21,490,266 | — |
| Total | 134,907,614 | 147,973,874 |

## 11 INTEREST EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Interest expenses of accounts payable to brokerage clients | 67,382,275 | 49,368,635 |
| Interest expenses on short-term commercial papers issued | 34,425,528 | 39,795,189 |
| Interest expenses on beneficiary certificates | 36,905,251 | 15,185,315 |
| Interest expenses on REPOs | 211,961,088 | 201,423,993 |
| Interest expenses on syndication loan | 23,088,743 | — |
| Interest expenses on other placements from financial institutions | 61,761,729 | 66,497,122 |
| Interest expenses on notes payable | 34,242,435 | 32,245,069 |
| Interest expenses on subordinated bonds | 141,864,361 | 98,753,425 |
| Others | 16,864,219 | 6,843,058 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 628,495,629 | 510,111,806 |

## 12 STAFF COSTS

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Salaries, bonus and allowance | 1,033,163,176 | 2,020,369,839 |
| Retirement scheme contributions | 44,465,729 | 33,348,450 |
| Other social welfare | 41,894,809 | 31,581,297 |
| Other benefits | 30,864,370 | 23,640,143 |
| Total | 1,150,388,084 | 2,108,939,729 |

The Group is required to participate in pension schemes in the PRC, Hong Kong and other jurisdictions whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the annual contributions described above.

## 13 OTHER OPERATING EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Operating lease charges in respect of property and equipment | 125,679,696 | 112,072,474 |
| Business development expenses | 110,821,735 | 117,603,906 |
| Travelling and transportation expenses | 68,432,825 | 41,155,355 |
| Information technology related expenses | 53,065,686 | 46,164,685 |
| Professional service fees | 46,507,330 | 40,741,434 |
| Utilities and maintenance | 18,980,009 | 18,747,357 |
| Securities Investor Protection Fund | 8,990,068 | 15,744,386 |
| Auditors' remuneration | 2,000,000 | 3,800,000 |
| Others | 42,464,033 | 29,530,183 |
| Total | 476,941,382 | 425,559,780 |

## 14 REVERSAL OF IMPAIRMENT LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Reversal of impairment losses against accounts receivable | (2,835,087) | (8,072,634) |
| Reversal of impairment losses against receivable from margin clients | (1,682,904) | — |
| Provision for impairment losses against reverse REPOs | 4,005,350 | — |
| Total | (512,641) | (8,072,634) |

## 15 INCOME TAX

(a) **Taxation in the consolidated statement of profit or loss and other comprehensive income represents:**

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Current tax | | |
| — PRC income tax | (102,997,890) | 228,028,241 |
| — Hong Kong profits tax | 7,054,934 | 23,624,422 |
| Subtotal | (95,942,956) | 251,652,663 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 260,401,581 | 124,628,551 |
| Total | 164,458,625 | 376,281,214 |

(b) **Reconciliation between income tax expense and accounting profit at applicable tax rates:**

The income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China (for the purpose of this report, Mainland China excludes Hong Kong, Macau and Taiwan) during the period. Taxes on profits assessable outside Mainland China have been calculated at the applicable rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on the existing legislation, interpretations and practices. A reconciliation of income tax expenses calculated by applying the PRC statutory income tax rate to profit before income tax to the income tax expense in the consolidated statement of profit or loss is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| Profit before income tax | 739,353,194 | 1,512,426,749 |
| Income tax calculated at the PRC statutory income tax rate | 184,838,299 | 378,106,687 |
| Non-deductible expenses | 10,390,197 | 12,644,221 |
| Non-taxable interest income | (27,797,951) | (7,123,432) |
| Effect of different applicable tax rates of the subsidiaries | (21,860,703) | (33,920,905) |
| Tax effect of unused tax losses not recognized | 19,322,753 | 27,948,121 |
| Utilization of previously unrecognized tax losses | (963,838) | (6,231,523) |
| Others | 529,868 | 4,858,045 |
| Total income tax expense | 164,458,625 | 376,281,214 |

## 16 BASIC AND DILUTED EARNINGS PER SHARE

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| Profit attributable to shareholders/equity holders of the Company and holders of other equity instruments | 574,877,398 | 1,136,145,535 |
| Accumulated interest for holders of perpetual subordinated bonds for the period | (28,344,262) | (5,153,425) |
| Subtotal | 546,533,136 | 1,130,992,110 |
| Weighted average number of ordinary shares in issue | 2,306,669,000 | 1,667,473,000 |
| Basic earnings per share (in RMB per share) | 0.24 | 0.68 |

There were no dilutive potential ordinary shares during the six months ended 30 June 2016 and 2015, and therefore, diluted earnings per share are the same as the basic earnings per share.

## 17 PROPERTY AND EQUIPMENT

| | Land and buildings | Office equipment | Furniture and fixtures | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2016 | 4,294,530 | 585,294,403 | 47,850,560 | 1,366,588 | 458,001,732 | 1,096,807,813 |
| Additions | — | 37,984,783 | 5,652,575 | — | 9,291,493 | 52,928,851 |
| Disposal | — | (34,990,237) | (538,243) | (556,000) | (325,940) | (36,410,420) |
| Effect of changes in foreign exchange rate | — | 947,149 | 5,629 | — | 1,023,509 | 1,976,287 |
| At 30 June 2016 | 4,294,530 | 589,236,098 | 52,970,521 | 810,588 | 467,990,794 | 1,115,302,531 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2016 | (868,222) | (471,865,598) | (42,781,533) | (1,028,889) | (413,894,650) | (930,438,892) |
| Additions | (186,411) | (20,621,446) | (1,237,251) | (75,390) | (9,359,053) | (31,479,551) |
| Disposals | — | 31,482,494 | 484,840 | 500,400 | 325,940 | 32,793,674 |
| Effect of changes in foreign exchange rate | — | (690,515) | (9,457) | — | (1,540,427) | (2,240,399) |
| At 30 June 2016 | (1,054,633) | (461,695,065) | (43,543,401) | (603,879) | (424,468,190) | (931,365,168) |
| **Carrying amount** | | | | | | |
| At 30 June 2016 | 3,239,897 | 127,541,033 | 9,427,120 | 206,709 | 43,522,604 | 183,937,363 |
| At 31 December 2015 | 3,426,308 | 113,428,805 | 5,069,027 | 337,699 | 44,107,082 | 166,368,921 |
| **Cost** | | | | | | |
| At 1 January 2015 | — | 555,797,490 | 46,264,853 | 1,366,588 | 449,540,286 | 1,052,969,217 |
| Acquisitions | 4,294,530 | 13,424,558 | 21,846 | — | 2,138,086 | 19,879,020 |
| Additions | — | 49,937,043 | 2,171,988 | — | 21,293,057 | 73,402,088 |
| Disposal | — | (38,508,146) | (1,140,719) | — | (18,343,012) | (57,991,877) |
| Effect of changes in foreign exchange rate | — | 4,643,458 | 532,592 | — | 3,373,315 | 8,549,365 |
| At 31 December 2015 | 4,294,530 | 585,294,403 | 47,850,560 | 1,366,588 | 458,001,732 | 1,096,807,813 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2015 | — | (464,184,162) | (42,245,203) | (878,109) | (410,472,778) | (917,780,252) |
| Acquisitions | (712,880) | (6,654,264) | (17,315) | — | (336,125) | (7,720,584) |
| Additions | (155,342) | (31,481,312) | (623,156) | (150,780) | (17,415,990) | (49,826,580) |
| Disposals | — | 34,462,923 | 637,812 | — | 17,419,491 | 52,520,226 |
| Effect of changes in foreign exchange rate | — | (4,008,783) | (533,671) | — | (3,089,248) | (7,631,702) |
| At 31 December 2015 | (868,222) | (471,865,598) | (42,781,533) | (1,028,889) | (413,894,650) | (930,438,892) |
| **Carrying amount** | | | | | | |
| At 31 December 2015 | 3,426,308 | 113,428,805 | 5,069,027 | 337,699 | 44,107,082 | 166,368,921 |
| At 31 December 2014 | — | 91,613,328 | 4,019,650 | 488,479 | 39,067,508 | 135,188,965 |

## 18 INTANGIBLE ASSETS

| | Securities trading seat rights | Others | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2016 | 41,268,843 | 911,170 | 42,180,013 |
| Effect of changes in foreign exchange rate | — | 8,445 | 8,445 |
| At 30 June 2016 | 41,268,843 | 919,615 | 42,188,458 |
| **Accumulated amortization** | | | |
| At 1 January 2016 | (40,295,799) | (473,664) | (40,769,463) |
| Additions | (452,667) | (4,260) | (456,927) |
| At 30 June 2016 | (40,748,466) | (477,924) | (41,226,390) |
| **Carrying amount** | | | |
| At 30 June 2016 | 520,377 | 441,691 | 962,068 |
| At 31 December 2015 | 973,044 | 437,506 | 1,410,550 |
| **Cost** | | | |
| At 1 January 2015 | 41,268,843 | 886,715 | 42,155,558 |
| Effect of changes in foreign exchange rate | — | 24,455 | 24,455 |
| At 31 December 2015 | 41,268,843 | 911,170 | 42,180,013 |
| **Accumulated amortization** | | | |
| At 1 January 2015 | (39,085,799) | (428,965) | (39,514,764) |
| Additions | (1,210,000) | (44,699) | (1,254,699) |
| At 31 December 2015 | (40,295,799) | (473,664) | (40,769,463) |
| **Carrying amount** | | | |
| At 31 December 2015 | 973,044 | 437,506 | 1,410,550 |
| At 31 December 2014 | 2,183,044 | 457,750 | 2,640,794 |

## 19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| **Non-current** | | |
| At fair value | | |
| — Equity investments | 675,829,713 | 581,340,923 |
| Analyzed into: | | |
| Unlisted | 675,829,713 | 581,340,923 |
| **Current** | | |
| At fair value | | |
| — Equity investments | 848,350,406 | 617,536,584 |
| — Funds and other investments | 10,408,790 | 488,582 |
| Total | 858,759,196 | 618,025,166 |
| Analyzed into: | | |
| Listed, outside Hong Kong | 16,762,696 | 20,621,166 |
| Unlisted | 841,996,500 | 597,404,000 |
| Total | 858,759,196 | 618,025,166 |

## 20 REFUNDABLE DEPOSITS

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Self-owned refundable deposits | 738,930,653 | 460,331,605 |
| Refundable deposits held on behalf of clients | 65,254,055 | 57,541,544 |
| Total | 804,184,708 | 517,873,149 |

Refundable deposits are mainly placed at China Securities Depository and Clearing Corporation Limited, futures companies, China Securities Finance Corporation Limited, Shanghai Clearing House, Hong Kong Securities Clearing Company Nominees Limited and Hong Kong Futures Exchange Clearing Corporation Limited.

## 21 DEFERRED TAX ASSETS/(LIABILITIES)

### (a) Deferred tax assets and liabilities recognized

The components of deferred tax assets/(liabilities) recognized in the consolidated statement of financial position and the movement during the period/year are as follows:

| | 1 January 2016 | Credited/ (charged) to profit or loss | Charged to equity | Exchange differences in translation of financial statements of overseas subsidiaries | 30 June 2016 | | |
|---|---|---|---|---|---|---|---|
| | | | | | Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
| Deferred tax arising from: | | | | | | | |
| Staff cost | 653,347,219 | (251,623,466) | — | (29,322) | 401,694,431 | 401,694,431 | — |
| Deductible tax losses | 40,103,936 | 8,487,072 | — | 11,538 | 48,602,546 | 48,602,546 | — |
| Depreciation and amortization | 5,969,610 | (616,708) | — | (1,179) | 5,351,723 | 5,351,723 | — |
| Changes in fair values of financial instruments at fair value through profit or loss | (88,990,859) | 3,818,768 | — | — | (85,172,091) | — | (85,172,091) |
| Changes in fair values of available-for-sale financial assets | (22,507,968) | — | (4,498,766) | — | (27,006,734) | — | (27,006,734) |
| Others | 60,717,260 | (20,467,247) | — | 1,318,616 | 41,568,629 | 42,199,707 | (631,078) |
| Subtotal | 648,639,198 | (260,401,581) | (4,498,766) | 1,299,653 | 385,038,504 | 497,848,407 | (112,809,903) |
| Set off | | | | | | (69,653,469) | 69,653,469 |
| Deferred tax assets/(liabilities) on consolidated statement of financial position | | | | | | 428,194,938 | (43,156,434) |

| | 1 January 2015 | Credited/ (charged) to profit or loss | Charged to equity | Addition from acquisition of a subsidiary | Exchange differences in translation of financial statements of overseas subsidiaries | 31 December 2015 | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
| Deferred tax arising from: | | | | | | | | |
| Staff cost | 455,636,756 | 194,485,730 | — | 1,770,795 | 1,453,938 | 653,347,219 | 653,347,219 | — |
| Deductible tax losses | 41,787,884 | (4,035,849) | — | — | 2,351,901 | 40,103,936 | 40,103,936 | — |
| Depreciation and amortization | 6,154,449 | (532,454) | — | — | 347,615 | 5,969,610 | 5,969,610 | — |
| Changes in fair values of financial instruments at fair value through profit or loss | (45,954,347) | (43,036,512) | — | — | — | (88,990,859) | — | (88,990,859) |
| Changes in fair values of available-for- sale financial assets | (7,720,487) | — | (14,787,481) | — | — | (22,507,968) | — | (22,507,968) |
| Others | 5,459,604 | 54,808,456 | — | 121,042 | 328,158 | 60,717,260 | 61,334,991 | (617,731) |
| Subtotal | 455,363,859 | 201,689,371 | (14,787,481) | 1,891,837 | 4,481,612 | 648,639,198 | 760,755,756 | (112,116,558) |
| Set off | | | | | | | (80,431,320) | 80,431,320 |
| Deferred tax assets/(liabilities) on consolidated statement of financial position | | | | | | | 680,324,436 | (31,685,238) |

(b) **Deferred tax assets not recognized**

The Group has not recognized deferred tax assets in respect of cumulative tax losses amounted to RMB292 million and RMB274 million at 30 June 2016 and 31 December 2015, respectively.

Deferred tax assets not recognized in respect of cumulative tax losses are mainly attributable to certain overseas subsidiaries of the Group which were set up to strengthen the Group's cross-border service capabilities.

Deferred tax asset arising from unused tax losses is recognized only to the extent that an entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses can be utilized by the entity, when the entity has a history of recent losses. The directors of the Company review the financial performance of these overseas subsidiaries at the end of reporting date to determine whether there is sufficient taxable profit to be available against the unused tax losses, and they are of the opinion that it is probable that sufficient future taxable profits against which the losses can be utilized will not be available in these overseas entities in the foreseeable future, given that further expenditures of these overseas subsidiaries are considered necessary for expanding the Group's overseas operations based on its business strategies.

## 22 ACCOUNTS RECEIVABLE

### (a) Analyzed by nature:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Trade receivable | 4,338,460,340 | 5,071,528,802 |
| Underwriting and advisory fees receivable | 615,301,096 | 841,560,561 |
| Asset management fees receivable | 244,677,831 | 261,351,438 |
| Trading seat rental fees receivable | 146,921,946 | 137,649,542 |
| Others | 427,170,318 | 380,270,140 |
| Less: provision for impairment losses | (12,581,180) | (18,488,540) |
| Total | 5,759,950,351 | 6,673,871,943 |

### (b) Analyzed by aging:

| | At 30 June 2016 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 5,288,942,659 | 91.63% | — | — |
| 1 - 2 years (inclusive) | 379,527,449 | 6.57% | (3,338,100) | 26.53% |
| 2 - 3 years (inclusive) | 78,601,106 | 1.36% | (3,445,600) | 27.39% |
| More than 3 years | 25,460,317 | 0.44% | (5,797,480) | 46.08% |
| Total | 5,772,531,531 | 100.00% | (12,581,180) | 100.00% |

| | At 31 December 2015 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 6,417,571,780 | 95.89% | — | — |
| 1 - 2 years (inclusive) | 195,734,655 | 2.92% | (3,399,300) | 18.39% |
| 2 - 3 years (inclusive) | 60,652,516 | 0.91% | (15,069,240) | 81.51% |
| More than 3 years | 18,401,532 | 0.28% | (20,000) | 0.10% |
| Total | 6,692,360,483 | 100.00% | (18,488,540) | 100.00% |

(c) **Analysis of the movement of provision for impairment losses:**

| | Six months ended 30 June 2016 | Year ended 31 December 2015 |
|---|---|---|
| At the beginning of the period/year | (18,488,540) | (25,420,751) |
| Reversed for the period/year | 2,835,087 | 8,081,121 |
| Write-offs for the period/year | 3,264,913 | 13,226,813 |
| Recoveries of account receivables previously written off | — | (13,851,705) |
| Effect of changes in foreign exchange rate | (192,640) | (524,018) |
| At the end of the period/year | (12,581,180) | (18,488,540) |

(d) **Accounts receivable that is not impaired**

Receivables that were neither past due nor impaired relate to a wide range of clients for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent clients that have a good track record of payments with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in the credit quality of these receivables and the balances are still considered fully recoverable.

## 23 RECEIVABLE FROM MARGIN CLIENTS

(a) **Analyzed by nature:**

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Individuals | 1,731,495,560 | 2,482,904,142 |
| Institutions | 819,718,725 | 819,305,758 |
| Less: provision for impairment losses | (4,094,949) | (5,777,853) |
| Total | 2,547,119,336 | 3,296,432,047 |

(b) **Analyzed by fair value of collaterals:**

| | Fair value of collaterals | |
|---|---|---|
| | At 30 June 2016 | At 31 December 2015 |
| Stocks | 11,511,041,545 | 14,051,288,840 |
| Cash | 580,239,217 | 521,097,559 |
| Debt securities | 67,809 | 18,601,623 |
| Total | 12,091,348,571 | 14,590,988,022 |

## 24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) **Analyzed by type:**

| | At 30 June 2016 | | |
|---|---|---|---|
| | Financial assets held for trading | Financial assets designated as at fair value through profit or loss | Total |
| Equity investments | 6,223,285,296 | 9,412,295,411 | 15,635,580,707 |
| Debt securities | 30,899,385,799 | — | 30,899,385,799 |
| Funds and other investments | 9,108,164,452 | 1,391,487,711 | 10,499,652,163 |
| Total | 46,230,835,547 | 10,803,783,122 | 57,034,618,669 |

| | At 31 December 2015 | | |
|---|---|---|---|
| | Financial assets held for trading | Financial assets designated as at fair value through profit or loss | Total |
| Equity investments | 5,915,045,555 | 6,561,603,309 | 12,476,648,864 |
| Debt securities | 20,279,792,939 | 300,000,000 | 20,579,792,939 |
| Funds and other investments | 11,648,354,424 | 754,463,441 | 12,402,817,865 |
| Total | 37,843,192,918 | 7,616,066,750 | 45,459,259,668 |

(b) **Analyzed by listing status:**

Financial assets held for trading:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Listed | | |
| — In Hong Kong | 76,810,057 | 86,748,557 |
| — Outside Hong Kong | 31,643,751,299 | 26,796,474,944 |
| Unlisted | 14,510,274,191 | 10,959,969,417 |
| Total | 46,230,835,547 | 37,843,192,918 |

Financial assets designated as at fair value through profit or loss:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Listed | | |
| — In Hong Kong | 836,314,770 | 560,967,563 |
| — Outside Hong Kong | 9,537,012,467 | 5,641,568,999 |
| Unlisted | 430,455,885 | 1,413,530,188 |
| Total | 10,803,783,122 | 7,616,066,750 |

## 25 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

| | At 30 June 2016 | | |
|---|---|---|---|
| | | Fair value | |
| | Notional amount | Assets | Liabilities |
| Interest rate contracts | 38,348,345,460 | 214,521,992 | (158,934,731) |
| Currency contracts | 15,520,521,956 | 115,239,766 | (83,759,476) |
| Equity contracts | 25,123,157,350 | 1,373,565,144 | (773,346,449) |
| Credit contracts | 1,288,537,762 | 13,920,889 | (19,490,452) |
| Other contracts | 21,010,634,285 | 373,310,529 | (396,724,768) |
| Total | 101,291,196,813 | 2,090,558,320 | (1,432,255,876) |
| Less: settlement | | (4,887,077) | 1,424,281 |
| Net position | | 2,085,671,243 | (1,430,831,595) |

| | As at 31 December 2015 | | |
|---|---|---|---|
| | | Fair value | |
| | Notional amount | Assets | Liabilities |
| Interest rate contracts | 24,449,855,650 | 304,847,442 | (150,729,764) |
| Currency contracts | 11,502,202,868 | 111,807,536 | (79,420,725) |
| Equity contracts | 19,445,891,385 | 185,668,395 | (731,288,281) |
| Credit contracts | 793,018,956 | 9,643,105 | (7,598,748) |
| Other contracts | 5,802,642,935 | 124,277,990 | (102,580,525) |
| Total | 61,993,611,794 | 736,244,468 | (1,071,618,043) |
| Less: settlement | | — | 606,115 |
| Net position | | 736,244,468 | (1,071,011,928) |

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures, treasury futures and commodity futures in Mainland China are settled daily and the corresponding receipts and payments are reflected in "deposits with clearing houses". Accordingly, the Group did not hold any net position of the above contracts at 30 June 2016 and 31 December 2015.

## 26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS ("REVERSE REPOS")

### (a) Analyzed by collateral type:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Debt securities | 1,336,008,374 | 426,512,532 |
| Stocks | 1,936,849,988 | 1,135,779,989 |
| Less: provision for impairment losses | (9,684,250) | (5,678,900) |
| Total | 3,263,174,112 | 1,556,613,621 |

### (b) Analyzed by market:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Inter-bank market | 522,837,552 | 150,153,796 |
| Stock exchanges | 2,327,666,724 | 1,261,601,089 |
| Over-the-counter market | 412,669,836 | 144,858,736 |
| Total | 3,263,174,112 | 1,556,613,621 |

## 27 CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The Group has classified their clients' monies as cash held on behalf of brokerage clients under the current assets of the consolidated statement of financial position and recognized the corresponding accounts payable to brokerage clients on the grounds that the Group is liable for any misappropriation of their clients' monies. In the PRC, clients' monies are restricted and governed by relevant third-party deposit regulations issued by the China Securities Regulatory Commission (the "CSRC"). In Hong Kong, clients' monies are restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 28 CASH AND BANK BALANCES

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Cash on hand | 173,277 | 182,032 |
| Deposits with banks | 10,873,665,553 | 7,897,452,142 |
| Deposits with clearing houses | 1,312,930,580 | 536,451,504 |
| Total | 12,186,769,410 | 8,434,085,678 |

## 29 CASH AND CASH EQUIVALENTS

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Cash on hand | 173,277 | 182,032 |
| Deposits with banks | 10,873,665,553 | 7,897,452,142 |
| Deposits with clearing houses | 1,312,930,580 | 536,451,504 |
| Less: fixed or restricted bank deposits | (826,744,525) | (441,885,793) |
| Total | 11,360,024,885 | 7,992,199,885 |

The fixed or restricted bank deposits mainly include bank deposits with original maturity of over three months held by the Group and the risk reserve deposits held for asset management business.

## 30 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | At 30 June 2016 | | |
|---|---|---|---|
| | Financial liabilities held for trading | Financial liabilities designated as at fair value through profit or loss | Total |
| Equity investments | 125,844,896 | 6,333,684,225 | 6,459,529,121 |
| Debt securities | 2,881,299,190 | — | 2,881,299,190 |
| Total | 3,007,144,086 | 6,333,684,225 | 9,340,828,311 |

| | At 31 December 2015 | | |
|---|---|---|---|
| | Financial liabilities held for trading | Financial liabilities designated as at fair value through profit or loss | Total |
| Equity investments | 21,583,407 | 5,426,566,098 | 5,448,149,505 |
| Debt securities | 134,201,447 | — | 134,201,447 |
| Funds and other investments | — | 1,965,210 | 1,965,210 |
| Total | 155,784,854 | 5,428,531,308 | 5,584,316,162 |

## 31 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Clients' deposits for brokerage trading | 20,939,801,396 | 24,696,953,887 |
| Clients' deposits for margin financing and securities lending | 499,554,123 | 521,097,559 |
| Total | 21,439,355,519 | 25,218,051,446 |

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and clearing houses. Accounts payable to brokerage clients are interest bearing at the prevailing interest rate.

The balance of the accounts payable includes certain margin deposits and cash collaterals received from clients for their margin financing and securities lending activities under normal course of business. Only the amounts in excess of the required amount of margin deposits and cash collaterals are repayable on demand.

## 32 PLACEMENTS FROM FINANCIAL INSTITUTIONS

### (a) Analyzed by funding source:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Due within one year | | |
| — Placements from China Securities Finance Co., Ltd. | 1,600,000,000 | 996,000,000 |
| — Others | 4,839,592,000 | 640,815,800 |
| Subtotal | 6,439,592,000 | 1,636,815,800 |
| Due after one year | | |
| — Syndication loan (Note) | — | 1,623,400,000 |
| Total | 6,439,592,000 | 3,260,215,800 |

*Note:* China International Capital Corporation (Hong Kong) Limited ("CICC Hong Kong") entered into a syndication loan arrangement of USD250 million on 17 July 2015 with a maturity date of 19 May 2018. CICC Hong Kong has repaid the loan on 23 June 2016.

### (b) Analyzed by residual maturity:

| | At 30 June 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | Book value | Range of interest rate | Book value | Range of interest rate |
| Within 1 month (inclusive) | 1,945,426,000 | 1.8%-3.0% | 590,651,000 | 1.1%- 2.3% |
| 1 - 3 months (inclusive) | 2,902,516,000 | 3.0%-4.8% | 650,164,800 | 3.6%-10.0% |
| 3 months - 1 year (inclusive) | 1,591,650,000 | 4.0% | 396,000,000 | 5.0%-10.0% |
| 1 - 3 years (inclusive) | — | — | 1,623,400,000 | 1M Libor plus 2.5% p.a. |
| Total | 6,439,592,000 | | 3,260,215,800 | |

## 33 SHORT-TERM DEBT SECURITIES ISSUED

| | Note | At 30 June 2016 | At 31 December 2015 |
|---|---|---|---|
| Beneficiary certificates | (a) | 4,919,200,877 | 1,700,000,000 |

(a) **Beneficiary certificates**

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2016 | Issuance | Redemption | Book value at 30 June 2016 |
|---|---|---|---|---|---|---|---|
| CICC Tianxinbao No.7 ... | 30/04/2015 | 27/10/2016 | 6.10% | 300,000,000 | — | — | 300,000,000 |
| CICC Tianxinbao No.8 ... | 08/05/2015 | 08/11/2016 | 6.20% | 200,000,000 | — | — | 200,000,000 |
| CICC Tianxinbao No.14 . | 23/12/2015 | 22/01/2016 | 3.95% | 50,000,000 | — | (50,000,000) | — |
| CICC Jinyintong No.3 .... | 21/12/2015 | 21/01/2016 | 4.00% | 500,000,000 | — | (500,000,000) | — |
| CICC Jinyintong No.4 .... | 23/12/2015 | 23/03/2016 | 4.20% | 500,000,000 | — | (500,000,000) | — |
| CICC Jinyintong No.5 .... | 28/12/2015 | 28/01/2016 | 4.00% | 150,000,000 | — | (150,000,000) | — |
| CICC Jinyintong No.6 .... | 18/03/2016 | 17/06/2016 | 3.50% | — | 200,000,000 | (200,000,000) | — |
| CICC Jinyintong No.7 .... | 06/05/2016 | 05/07/2017 | 3.60% | — | 400,000,000 | — | 400,000,000 |
| CICC Jinyintong No.8 .... | 23/05/2016 | 23/08/2017 | 3.65% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.9 .... | 30/05/2016 | 26/08/2017 | 3.30% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.10 .. | 30/05/2016 | 30/08/2017 | 3.30% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.11 .. | 30/05/2016 | 02/09/2017 | 3.30% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.12 .. | 01/06/2016 | 01/11/2017 | 3.75% | — | 800,000,000 | — | 800,000,000 |
| CICC Jinyintong No.13 .. | 01/06/2016 | 03/11/2017 | 3.75% | — | 800,000,000 | — | 800,000,000 |
| CICC Shangpin A No.1 .. | 14/04/2016 | 14/07/2016 | Floating interest rate | — | 10,000,000 | — | 10,000,000 |
| CICC Shangpin A No.3 .. | 25/04/2016 | 25/07/2016 | Floating interest rate | — | 1,000,000 | — | 1,000,000 |
| CICC Shangpin A No.2 .. | 29/04/2016 | 29/07/2016 | Floating interest rate | — | 20,000,000 | — | 20,000,000 |
| CICC Shangpin A No.4 .. | 17/05/2016 | 16/08/2016 | Floating interest rate | — | 10,000,000 | — | 10,000,000 |
| CICC Shangpin B No.2 .. | 20/05/2016 | 16/11/2016 | Floating interest rate | — | 506,850 | — | 506,850 |
| CICC Shangpin A No.6 .. | 16/06/2016 | 15/09/2016 | Floating interest rate | — | 80,000,000 | — | 80,000,000 |
| CICC Shangpin A No.9 .. | 16/06/2016 | 15/09/2016 | Floating interest rate | — | 60,000,000 | — | 60,000,000 |
| CICC Shangpin A No.10. | 16/06/2016 | 15/09/2016 | Floating interest rate | — | 60,000,000 | — | 60,000,000 |
| CICC Shangpin B No.4 .. | 24/06/2016 | 21/12/2016 | Floating interest rate | — | 494,027 | — | 494,027 |
| CICC Tongxin No.1........ | 25/05/2016 | 23/11/2016 | Floating interest rate | — | 31,000,000 | — | 31,000,000 |
| CICC Tongxin No.2........ | 27/05/2016 | 25/11/2016 | Floating interest rate | — | 27,000,000 | — | 27,000,000 |
| CICC Tongxin No.3........ | 31/05/2016 | 29/11/2016 | Floating interest rate | — | 49,200,000 | — | 49,200,000 |
| CICC Tongxin No.5........ | 15/06/2016 | 15/12/2016 | Floating interest rate | — | 60,000,000 | — | 60,000,000 |
| CICC Tongxin No.6........ | 22/06/2016 | 22/12/2016 | Floating interest rate | — | 10,000,000 | — | 10,000,000 |
| Total ............................. | | | | 1,700,000,000 | 4,619,200,877 | (1,400,000,000) | 4,919,200,877 |

*Note:* The floating interest rate is calculated based on China Securities Index 500, gold price and price of futures of various underlying assets.

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2015 | Issuance | Redemption | Book value at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| CICC Tianxinbao No.1 .... | 26/12/2014 | 25/06/2015 | 5.80% | 50,000,000 | — | (50,000,000) | — |
| CICC Zhaozhaoniu No.1 .. | 26/12/2014 | 25/06/2015 | Floating interest rate | 50,000,000 | — | (50,000,000) | — |
| CICC Tianxinbao No.2 .... | 04/02/2015 | 04/08/2015 | 5.20% | — | 60,000,000 | (60,000,000) | — |
| CICC Tianxinbao No.3 .... | 27/03/2015 | 29/06/2015 | 5.50% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.4 .... | 02/04/2015 | 28/09/2015 | 5.70% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.5 .... | 03/04/2015 | 06/07/2015 | 4.30% | — | 10,000,000 | (10,000,000) | — |
| CICC Tianxinbao No.6 .... | 08/04/2015 | 07/07/2015 | 5.62% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.7 .... | 30/04/2015 | 27/10/2016 | 6.10% | — | 300,000,000 | — | 300,000,000 |
| CICC Tianxinbao No.8 .... | 08/05/2015 | 08/11/2016 | 6.20% | — | 200,000,000 | — | 200,000,000 |
| CICC Tianxinbao No.9 .... | 24/06/2015 | 23/12/2015 | 5.70% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.10... | 24/06/2015 | 23/12/2015 | 5.70% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.11... | 26/06/2015 | 23/12/2015 | 5.80% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.12... | 19/06/2015 | 16/12/2015 | 5.80% | — | 50,000,000 | (50,000,000) | — |
| CICC Tianxinbao No.13... | 26/06/2015 | 23/12/2015 | 5.80% | — | 100,000,000 | (100,000,000) | — |
| CICC Tianxinbao No.14... | 23/12/2015 | 22/01/2016 | 3.95% | — | 50,000,000 | — | 50,000,000 |
| CICC Fixed Return No.2 . | 12/05/2015 | 10/08/2015 | 5.60% | — | 200,000,000 | (200,000,000) | — |
| CICC Jinyintong No.1 ..... | 03/04/2015 | 29/09/2015 | 6.05% | — | 200,000,000 | (200,000,000) | — |
| CICC Jinyintong No.2 ..... | 07/07/2015 | 21/07/2015 | 5.00% | — | 700,000,000 | (700,000,000) | — |
| CICC Jinyintong No.3 ..... | 21/12/2015 | 21/01/2016 | 4.00% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.4 ..... | 23/12/2015 | 23/03/2016 | 4.20% | — | 500,000,000 | — | 500,000,000 |
| CICC Jinyintong No.5 ..... | 28/12/2015 | 28/01/2016 | 4.00% | — | 150,000,000 | — | 150,000,000 |
| Total............................... | | | | 100,000,000 | 3,470,000,000 | (1,870,000,000) | 1,700,000,000 |

*Note:* The floating interest rate is calculated based on Shanghai & Shenzhen 300 index.

## 34 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS ("REPOS")

### (a) Analyzed by collateral type:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Debt securities ........................................................................ | 14,232,358,273 | 13,013,713,250 |
| Others ...................................................................................... | 1,687,687,009 | 1,000,000,000 |
| Total ......................................................................................... | 15,920,045,282 | 14,013,713,250 |

(b) **Analyzed by market:**

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Inter-bank market | 13,213,122,962 | 8,310,657,781 |
| Stock exchanges | 1,407,565,000 | 4,463,010,000 |
| Over-the-counter market | 1,299,357,320 | 1,240,045,469 |
| Total | 15,920,045,282 | 14,013,713,250 |

## 35 LONG-TERM DEBT SECURITIES ISSUED

| | Note | At 30 June 2016 | At 31 December 2015 |
|---|---|---|---|
| Due within one year | | | |
| — Subordinated bonds | (a) | 3,000,000,000 | — |
| Due after one year | | | |
| — Subordinated bonds | (a) | 2,000,000,000 | 5,000,000,000 |
| — Notes payable | (b) | 3,292,601,160 | 1,071,444,000 |
| Subtotal | | 5,292,601,160 | 6,071,444,000 |
| Total | | 8,292,601,160 | 6,071,444,000 |
| Fair value | | 8,554,387,385 | 6,402,662,243 |

(a) **Subordinated bonds:**

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2016 | Issuance | Redemption | Book value at 30 June 2016 |
|---|---|---|---|---|---|---|---|
| 2013 subordinated bonds (i) | 25/07/2013 | 25/07/2019 | 1st - 3rd years 6%<br>4th - 6th years 9% | 3,000,000,000 | — | — | 3,000,000,000 |
| 2015 subordinated bonds (ii) | 29/05/2015 | 29/05/2021 | 1st - 3rd years 5.25%<br>4th - 6th years 8.25% | 2,000,000,000 | — | — | 2,000,000,000 |
| Total | | | | 5,000,000,000 | — | — | 5,000,000,000 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2015 | Issuance | Redemption | Book value at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| 2013 subordinated bonds (i) | 25/07/2013 | 25/07/2019 | 1st - 3rd years 6%<br>4th - 6th years 9% | 3,000,000,000 | — | — | 3,000,000,000 |
| 2015 subordinated bonds (ii) | 29/05/2015 | 29/05/2021 | 1st - 3rd years 5.25%<br>4th - 6th years 8.25% | — | 2,000,000,000 | — | 2,000,000,000 |
| Total | | | | 3,000,000,000 | 2,000,000,000 | — | 5,000,000,000 |

(i) The Company issued subordinated bonds with a principal amount of RMB3 billion on 25 July 2013 with a maturity date of 25 July 2019. Interests of the subordinated bonds are paid annually. The Company has redeemed the bonds on 25 July 2016.

(ii) The Company issued subordinated bonds with a principal amount of RMB2 billion on 29 May 2015 with a maturity date of 29 May 2021. Interests of the subordinated bonds are paid annually. The Company has an option to redeem the bonds on 29 May 2018.

(b) **Notes payable:**

CICC Hong Kong issued notes with a principal amount of US dollars ("USD") 165 million on 28 April 2011 with a maturity date of 28 April 2021. Interests of the notes were paid semi-annually. CICC Hong Kong has fully redeemed the notes on 29 April 2016.

CICC Hong Kong has guaranteed USD500 million medium-term notes issued by its wholly owned subsidiary CICC Hong Kong Finance 2016 MTN Limited on 18 May 2016 with a maturity date of 18 May 2019. Interests of the notes are paid semi-annually.

## 36 CAPITAL, RESERVES AND DIVIDENDS

(a) **Share capital**

On 9 November 2015, the Company issued 555,824,000 H-share with a par value of RMB1 at an offering price of HKD10.28 per share. On 18 November 2015, the Company exercised the over-allotment option and issued 83,372,000 H shares with a par value of RMB1 at an offering price of HKD10.28 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(b) **Reserves**

(i) ***Capital reserve***

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Share premium (a) | 7,680,642,418 | 7,680,642,418 |
| Others (b) | 25,025,907 | 25,025,907 |
| Total | 7,705,668,325 | 7,705,668,325 |

(a) The premium arising from the Company's H-share offering (see Note 36(a)) was recorded in share premium.

(b) Others mainly represent the difference arising from the redemption of preference shares by CICC Hong Kong in 1998.

(ii) ***Surplus reserve***

The surplus reserve represents statutory surplus reserve. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC (the "MOF") after offsetting prior year's accumulated losses, to 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, or converted into capital of the Company provided that the balance of the statutory surplus reserve after such capitalization is not less than 25% of the registered capital immediately before the capitalization.

The Company makes the appropriation of surplus reserve at the end of each year.

(iii) ***General reserve***

General reserve includes general risk reserve and trading risk reserve.

In accordance with the Financial Rules for Financial Enterprises (Order of the MOF No. 42) and the application guidance (Caijin [2007] No. 23) issued by the MOF, and the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the general risk reserve.

In accordance with the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the trading risk reserve.

The Company makes the appropriation of general reserve at the end of each year.

General reserves for the Company's subsidiaries are appropriated if relevant requirements are in place.

(iv) ***Investment revaluation reserve***

The investment revaluation reserve comprises the cumulative net changes in fair values of available-for-sale financial assets held at the end of reporting period.

(v) ***Foreign currency translation reserve***

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of the Group entities from their respective reporting currencies to RMB.

(c) **Dividends**

The Company has not distributed any dividends to the shareholders during the six months ended 30 June 2016.

## 37 OTHER EQUITY INSTRUMENTS

The Company issued its 2015 perpetual subordinated bonds with a principal amount of RMB1 billion on 29 May 2015. The interest rate of the perpetual subordinated bonds resets every 5 years thereafter based on a benchmark rate and a predetermined spread.

The Company does not have any contractual obligation to deliver cash or other financial assets to redeem the perpetual subordinated bonds. The redemption of the perpetual subordinated bonds is solely at the discretion of the Company.

## 38 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at 30 June 2016 and 31 December 2015 not provided for in the financial statements were as follows:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Contracted, but not provided for | 471,470,867 | 158,806,837 |

### (b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Within 1 year (inclusive) | 252,937,869 | 215,715,886 |
| 1 - 2 years (inclusive) | 243,873,976 | 202,178,532 |
| 2 - 3 years (inclusive) | 224,514,183 | 187,815,098 |
| More than 3 years | 309,256,992 | 350,638,130 |
| Total | 1,030,583,020 | 956,347,646 |

### (c) Underwriting commitments

There was no underwriting commitments taken but not provided for by the Group at 30 June 2016 and 31 December 2015.

## 39 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Related party transactions with key management personnel

The key management personnel are those who have the authority and responsibility to plan, direct and control directly or indirectly, the activities of the Group, including members of the Board of Directors and the supervisory board, and other senior executives.

Remuneration for key management personnel of the Group is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| Salaries, allowances and benefits in kind | 14,586,502 | 6,870,463 |
| Discretionary bonuses (Note) | — | — |
| Retirement scheme contributions | 183,821 | 137,620 |
| Total | 14,770,323 | 7,008,083 |

*Note:* The discretionary bonuses of the Group's management personnel for the six months ended 30 June 2016 have not yet been finalized.

### (b) Related party transactions with major shareholders/equity holders

#### (i) *Related party transactions with major shareholders/equity holders and their related parties*

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | **2015** |
| Brokerage commission income | 1,031,364 | 36,202,416 |
| Underwriting and sponsoring fees | 266,099 | 5,767,895 |
| Asset management fees | 9,935,337 | 17,275,996 |
| Interest income | 67,911,421 | 53,823,087 |
| Net gains from financial assets at fair value through profit or loss | 119,082,773 | 12,978,598 |
| Interest expenses | 39,462,570 | 20,027,507 |

(ii) ***The balances of transactions with major shareholders and their related parties***

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Financial assets at fair value through profit or loss | 268,628,673 | 374,258,713 |
| Reverse REPOs | 522,837,552 | — |
| Cash and bank balances (Note) | 6,717,115,835 | 9,039,480,902 |
| Accounts payable to brokerage clients | — | 6,749 |
| REPOs | — | 1,020,255,279 |
| Interest payable | 20,040,377 | 15,160,499 |
| Subordinated bonds | 540,000,000 | 540,000,000 |
| Entrusted funds | 12,833,933,478 | 12,646,092,578 |

*Note:* The cash and bank balances deposited with major shareholders and their related parties includes self-owned cash and bank balances and cash held on behalf of brokerage clients.

(c) **Related party transactions with the Group's associates and joint ventures**

(i) ***Related party transactions with associates and joint ventures and their related parties***

| | Six months ended 30 June | |
|---|---|---|
| | 2016 | 2015 |
| Brokerage commission income | — | 2,150,411 |
| Asset management fees | — | 8 |
| Investment advisory fees | 9,702,070 | 3,292,807 |
| Interest income | 14,301 | — |

(ii) ***The balances of transactions with associates and joint ventures and their related parties***

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Accounts receivable | — | 6,196,689 |

## 40 SEGMENT REPORTING

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. An operating segment is a component of the Group:

— that engages in business activities from which it may earn revenues and incur expenses;

— whose operating results are regularly reviewed by the Group's management for the purposes of resources allocation and performance evaluation; and

— for which financial statements regarding financial position, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics in respect of:

— the nature of services;

— the type or class of customers for the services;

— the methods used to provide the services; and

— the nature of the regulatory environment.

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 unit that offers services which are subject to risks and returns that are different from the other operating segments. A summary of the operating segments is as follows:

— the Investment Banking segment provides investment banking services, including equity financing, debt and structured financing and financial advisory services as well as the National Equities Exchange and Quotations ("NEEQ") services, to clients in the PRC and overseas.

— the Equities segment provides a wide range of equity sales and trading services, including brokerage services and capital-based intermediary services, to institutional investors, including financial institutions, corporations and governmental entities.

— the FICC segment engages in trading of financial products, including fixed-income, equities, currencies and commodities products, using the Group's own capital, as well as for clients facilitation purposes. It also provides product structuring, fixed income distribution and futures brokerage services.

— the Wealth Management segment provides a wide range of wealth management products and services, consisting of advisory services, transactional services, capital-based intermediary services and product services, to high-net-worth individuals, family offices and corporate clients.

— the Investment Management segment designs and provides a wide range of asset management products and services for domestic and overseas investors. It also manages mutual funds, private equity funds as well as funds of funds.

— the Others segment mainly comprises of other business departments and back offices.

(a) **Segment results**

| | Six months ended 30 June 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment Banking | Equities | FICC | Wealth Management | Investment Management | Others | Total |
| Segment revenue | | | | | | | |
| — Fee and commission income | 701,798,609 | 628,069,640 | 171,833,187 | 294,533,701 | 310,515,161 | 340,183 | 2,107,090,481 |
| — Interest income | 866,870 | 126,064,794 | 50,353,653 | 214,628,905 | 7,318,879 | 56,033,188 | 455,266,289 |
| — Investment income | 13,390,837 | 172,679,796 | 361,051,737 | 8,296,083 | 15,202,233 | 35,749,626 | 606,370,312 |
| — Other income | 14,084,841 | 4,594,064 | 11,274,072 | 4,796,201 | 255,398 | 17,077,041 | 52,081,617 |
| Segment revenue and other income | 730,141,157 | 931,408,294 | 594,512,649 | 522,254,890 | 333,291,671 | 109,200,038 | 3,220,808,699 |
| Segment expenses | (560,822,955) | (397,039,307) | (556,704,790) | (403,297,187) | (338,124,006) | (251,200,913) | (2,507,189,158) |
| Segment operating profit/(loss) | 169,318,202 | 534,368,987 | 37,807,859 | 118,957,703 | (4,832,335) | (142,000,875) | 713,619,541 |
| Share of profits of associates and joint ventures | — | — | — | — | 21,242,091 | 4,491,562 | 25,733,653 |
| Profit/(loss) before income tax | 169,318,202 | 534,368,987 | 37,807,859 | 118,957,703 | 16,409,756 | (137,509,313) | 739,353,194 |
| Interest expenses (Note) | (23,086,654) | (58,109,022) | (366,765,124) | (128,958,185) | (73,882,402) | 22,305,758 | (628,495,629) |
| Depreciation and amortization expenses | (1,514,993) | (3,314,045) | (2,739,999) | (7,622,325) | (3,991,622) | (12,753,494) | (31,936,478) |
| Reversal/(provision) for impairment losses | 2,835,087 | 173,809 | — | (2,496,255) | — | — | 512,641 |

| | Six months ended 30 June 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment Banking | Equities | FICC | Wealth Management | Investment Management | Others | Total |
| Segment revenue | | | | | | | |
| — Fee and commission income | 991,443,774 | 1,136,301,421 | 42,978,790 | 560,019,084 | 388,013,406 | 94,084 | 3,118,850,559 |
| — Interest income | 657,623 | 108,476,691 | 4,393,520 | 267,849,228 | 3,523,703 | 34,213,436 | 419,114,201 |
| — Investment income | 5,261,925 | 239,854,906 | 947,839,659 | 69,661,867 | 47,603,802 | 3,477,004 | 1,313,699,163 |
| — Other income | 139,814 | 637,408 | — | 2,415,216 | 9,557,000 | 16,625,300 | 29,374,738 |
| Segment revenue and other income | 997,503,136 | 1,485,270,426 | 995,211,969 | 899,945,395 | 448,697,911 | 54,409,824 | 4,881,038,661 |
| Segment expenses | (775,650,460) | (532,382,737) | (447,448,991) | (538,641,999) | (326,743,928) | (783,903,203) | (3,404,771,318) |
| Segment operating profit/(loss) | 221,852,676 | 952,887,689 | 547,762,978 | 361,303,396 | 121,953,983 | (729,493,379) | 1,476,267,343 |
| Share of profits of associates and joint ventures | — | — | — | — | 32,185,785 | 3,973,621 | 36,159,406 |
| Profit/(loss) before income tax | 221,852,676 | 952,887,689 | 547,762,978 | 361,303,396 | 154,139,768 | (725,519,758) | 1,512,426,749 |
| Interest expenses (Note) | (2,890,673) | (126,627,094) | (226,541,626) | (167,434,840) | (24,245,470) | 37,627,897 | (510,111,806) |
| Depreciation and amortization expenses | (379,290) | (2,679,637) | (228,715) | (7,130,257) | (2,711,350) | (10,417,569) | (23,546,818) |
| Reversal/(provision) for impairment losses | 10,586,752 | — | (68,000) | — | (2,446,118) | — | 8,072,634 |

*Note:* The Group allocates interest expenses across the reportable segments according to the capital used during the reporting periods for the purpose of measuring segment operating performance and improving the efficiencies of capital management.

(b) **Geographical information**

The following table sets out the Group's operating income from external clients and the Group's non-current assets (excluding financial instruments, deferred tax assets, same as below) in terms of geographical locations. The geographical locations of the operating income from external clients are identified based on the locations of the clients to whom the services are rendered. The geographical locations of the non-current assets are identified based on the locations where the fixed assets are located or the intangible assets are allocated or the associates and joint ventures operate.

| | Revenues and other income from external customers | |
|---|---|---|
| | Six months ended 30 June | |
| | 2016 | 2015 |
| Mainland China | 2,596,271,069 | 3,934,240,903 |
| Overseas | 624,537,630 | 946,797,758 |
| Total | 3,220,808,699 | 4,881,038,661 |

| | Non-current assets | |
|---|---|---|
| | At 30 June 2016 | At 31 December 2015 |
| Mainland China | 1,350,728,274 | 1,003,955,079 |
| Overseas | 190,425,890 | 193,999,933 |
| Total | 1,541,154,164 | 1,197,955,012 |

Reconciliation of segment non-current assets:

| | Non-current assets | |
|---|---|---|
| | At 30 June 2016 | At 31 December 2015 |
| Total non-current assets for segments | 4,027,833,750 | 2,928,070,738 |
| Elimination of inter-segment non-current assets | (2,486,679,586) | (1,730,115,726) |
| Total | 1,541,154,164 | 1,197,955,012 |

(c) **Major clients**

The Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue for the six months ended 30 June 2016.

**41 FAIR VALUE INFORMATION**

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Financial assets including cash and bank balances, cash held on behalf of brokerage clients, reverse REPOs and financial liabilities including short-term placements from financial institutions and REPOs, are mainly instruments with floating interest rates or short-term financing. Accordingly, their carrying amounts approximate the fair values.

(ii) Financial instruments at fair value through profit or loss, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flows or other valuation techniques.

(iii) The fair values of short-term and long-term debt securities issued are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as similar credit risk and maturity, to estimate the fair values using discounted cash flows or other valuation techniques. The fair values of long-term debt securities issued are disclosed in Note 35. The carrying amounts of long-term placement from financial institutions and short-term debt securities issued approximate to their fair values.

(iv) Accounts receivable and accounts payable to brokerage clients are due mainly within one year. Accordingly, the carrying amounts approximate the fair values.

(a) **Financial assets and liabilities measured at fair value**

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level I valuations: Fair value measured using only Level I inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level II valuations: Fair value measured using Level II inputs i.e. observable inputs which fail to meet Level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level III valuations: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for a financial instrument, the fair value of the financial instrument is based on quoted market price. If a reliable quoted market price is not available, the fair value of the financial instrument is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyzes financial instruments measured at fair value at the end of the reporting periods, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| | **At 30 June 2016** | | | |
|---|---|---|---|---|
| | **Level I** | **Level II** | **Level III** | **Total** |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| — Equity investments | 6,023,247,905 | 200,037,391 | — | 6,223,285,296 |
| — Debt securities | 2,387,435,651 | 28,511,950,148 | — | 30,899,385,799 |
| — Funds and other investments | 212,272,472 | 8,875,429,430 | 20,462,550 | 9,108,164,452 |
| Financial assets designated as at fair value through profit or loss | | | | |
| — Equity investments | 8,069,854,405 | 1,342,441,006 | — | 9,412,295,411 |
| — Funds and other investments | 961,031,826 | 430,455,885 | — | 1,391,487,711 |
| Derivative financial assets | 13,554,066 | 2,072,117,177 | — | 2,085,671,243 |
| Available-for-sale financial assets | | | | |
| — Equity investments | 16,353,906 | — | 1,507,826,213 | 1,524,180,119 |
| — Funds and other investments | 408,790 | — | 10,000,000 | 10,408,790 |
| Total | 17,684,159,021 | 41,432,431,037 | 1,538,288,763 | 60,654,878,821 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities held for trading | | | | |
| — Equity investments | (125,844,896) | — | — | (125,844,896) |
| — Debt securities | (167,324,815) | (2,713,974,375) | — | (2,881,299,190) |
| Financial liabilities designated as at fair value through profit or loss | | | | |
| — Equity investments | — | (6,333,684,225) | — | (6,333,684,225) |
| Derivatives financial liabilities | (47,233,788) | (1,368,179,104) | (15,418,703) | (1,430,831,595) |
| Total | (340,403,499) | (10,415,837,704) | (15,418,703) | (10,771,659,906) |

| | At 31 December 2015 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| — Equity investments | 2,520,861,785 | 3,394,183,770 | — | 5,915,045,555 |
| — Debt securities | 4,933,179,067 | 15,346,613,872 | — | 20,279,792,939 |
| — Funds and other investments | 4,268,714,082 | 7,379,640,342 | — | 11,648,354,424 |
| Financial assets designated as at fair value through profit or loss | | | | |
| — Equity investments | 6,058,517,273 | 503,086,036 | — | 6,561,603,309 |
| — Debt securities | — | — | 300,000,000 | 300,000,000 |
| — Funds and other investments | 12,896,243 | 649,086,470 | 92,480,728 | 754,463,441 |
| Derivative financial assets | 4,452,372 | 731,792,096 | — | 736,244,468 |
| Available-for-sale financial assets | | | | |
| — Equity investments | 20,132,584 | — | 1,178,744,923 | 1,198,877,507 |
| — Funds and other investments | 488,582 | — | — | 488,582 |
| Total | 17,819,241,988 | 28,004,402,586 | 1,571,225,651 | 47,394,870,225 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities held for trading | | | | |
| — Equity investments | (21,583,407) | — | — | (21,583,407) |
| — Debt securities | — | (134,201,447) | — | (134,201,447) |
| Financial liabilities designated as at fair value through profit or loss | | | | |
| — Equity investments | — | (5,426,566,098) | — | (5,426,566,098) |
| — Funds and other investments | (1,965,210) | — | — | (1,965,210) |
| Derivatives financial liabilities | (1,668,050) | (1,054,245,119) | (15,098,759) | (1,071,011,928) |
| Total | (25,216,667) | (6,615,012,664) | (15,098,759) | (6,655,328,090) |

(i) At 30 June 2016, investment in certain suspended stocks which were classified as financial assets held for trading and financial assets designated as at fair value through profit or loss of the Group with the carrying amount of RMB1,321,430,114, were transferred from Level I to Level II as the quoted prices of these stocks were no longer regularly available. At 31 December 2015, investment in certain suspended stocks which were classified as financial assets held for trading and financial assets designated as at fair value through profit or loss of the Group with the carrying amount of RMB372,286,560 were transferred from Level I to Level II as the quoted prices of these stocks were no longer regularly available. For the six months ended 30 June 2016 and the year ended 31 December 2015, there were no other significant transfer between Level I and Level II of the fair value hierarchy.

(ii) Information about Level III fair value measurements

At 30 June 2016 and 31 December 2015, it is estimated that the sensitivity of the Group's profit or loss and other comprehensive income to the fluctuation of parameters used in Level III fair value measurements is not significant.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

| | Financial assets at fair value through profit or loss | Available- for-sale financial assets | Derivatives financial liabilities | Total |
|---|---|---|---|---|
| At 1 January 2016 | 392,480,728 | 1,178,744,923 | (15,098,759) | 1,556,126,892 |
| Gains or losses for the period | 2,839,172 | 20,460,044 | — | 23,299,216 |
| Changes in fair value recognized in other comprehensive income | — | (40,519) | (319,944) | (360,463) |
| Purchases | 22,454,808 | 318,661,765 | — | 341,116,573 |
| Sales and settlements | (397,312,158) | — | — | (397,312,158) |
| Transfer into Level III | — | — | — | — |
| Transfer out of Level III | — | — | — | — |
| At 30 June 2016 | 20,462,550 | 1,517,826,213 | (15,418,703) | 1,522,870,060 |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period | (1,992,258) | 20,460,044 | — | 18,467,786 |

| | Financial assets at fair value through profit or loss | Available- for-sale financial assets | Derivatives financial liabilities | Total |
|---|---|---|---|---|
| At 1 January 2015 | 121,611,838 | 388,451,021 | (31,310,440) | 478,752,419 |
| Gains or losses for the year | (9,826,838) | 105,317,740 | (56,034,732) | 39,456,170 |
| Changes in fair value recognized in other comprehensive income | — | (34,087,893) | — | (34,087,893) |
| Purchases | 300,695,728 | 719,064,055 | — | 1,019,759,783 |
| Sales and settlements | (20,000,000) | — | 72,246,413 | 52,246,413 |
| Transfer into Level III | — | — | — | — |
| Transfer out of Level III | — | — | — | — |
| At 31 December 2015 | 392,480,728 | 1,178,744,923 | (15,098,759) | 1,556,126,892 |
| Total gains or losses for the year included in profit or loss for assets held at the end of the year | (2,980,838) | 105,317,740 | (56,034,732) | 46,302,170 |

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

| Financial assets | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|---|---|---|---|---|
| Funds and other investments .............. | Level III | Allocated net assets value | Net asset value | The higher the allocated net assets value, the higher the fair value |
| Unlisted equity investments .............. | Level III | Market comparable companies | Discount for lack of marketability | The higher the discount, the lower the fair value |

(b) **Fair value of financial assets and liabilities carried at other than fair value**

The fair values of long-term debt securities issued have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Group, which are classified as Level II categories and disclosed in Note 35.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortized cost in the Group's statement of financial position approximate their fair values.

## 42 FINANCIAL RISK MANAGEMENT

The Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

(a) **Credit risk**

Credit risk represents the potential loss that may arise from the failure of counterparties, clients, intermediary institutions, bond issuers or other business associates to meet their contracted obligation to the Group.

Currently, the Group's exposure to credit risk arises from: (1) direct credit risk from debt borrowers (including borrowers in margin financing and securities lending business) or bond issuers' default or bankruptcy, including the loss due to intermediary institutions such as brokers or custodian banks. The risk exposure is the total value of the debt outstanding; (2) counterparty credit risk from a counterparty's default on the over-the-counter derivative transactions, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives; (3) settlement risk from a business associate's failure in delivery of fund or securities when the Group has fulfilled its delivery obligation.

To mitigate direct credit risk, the Group has set up investment criteria and limits based on bonds variety, credit ratings and issuers. For margin financing and securities lending and reverse REPOs, the Group undertakes various means to mitigates the direct credit risk, including holding collaterals from clients, reviewing and setting client trading limits, managing the underlying securities and collaterals and their conversion ratios, real-time and day-end monitoring, executing margin calls and forced liquidations, undertaking recourse actions.

(i) ***Maximum exposure to credit risk of the Group without taking into account of any collateral or other credit enhancements***

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Refundable deposits | 804,184,708 | 517,873,149 |
| Financial assets at fair value through profit or loss | 30,899,385,799 | 20,579,792,939 |
| Derivative financial assets | 2,072,117,177 | 731,792,096 |
| Reverse REPOs | 3,263,174,112 | 1,556,613,621 |
| Receivable from margin clients | 2,547,119,336 | 3,296,432,047 |
| Cash held on behalf of brokerage clients | 20,523,945,792 | 24,301,353,512 |
| Bank balances | 12,186,596,133 | 8,433,903,646 |
| Accounts receivable | 5,759,950,351 | 6,673,871,943 |
| Others | 593,979,163 | 478,508,038 |
| Total maximum credit risk exposure | 78,650,452,571 | 66,570,140,991 |

(ii) ***Risk concentrations***

The Group's maximum credit risk exposure without taking into account of any collateral and other credit enhancements, as categorized by geographical area:

| | Mainland China | By geographical area Outside Mainland China | Total |
|---|---|---|---|
| **At 30 June 2016** | | | |
| Refundable deposits | 732,426,412 | 71,758,296 | 804,184,708 |
| Financial assets at fair value through profit or loss | 29,954,118,592 | 945,267,207 | 30,899,385,799 |
| Derivative financial assets | 770,840,093 | 1,301,277,084 | 2,072,117,177 |
| Reverse REPOs | 2,850,504,276 | 412,669,836 | 3,263,174,112 |
| Receivable from margin clients | 2,043,379,680 | 503,739,656 | 2,547,119,336 |
| Cash held on behalf of brokerage clients | 18,103,457,650 | 2,420,488,142 | 20,523,945,792 |
| Bank balances | 8,702,418,340 | 3,484,177,793 | 12,186,596,133 |
| Accounts receivable | 1,396,960,538 | 4,362,989,813 | 5,759,950,351 |
| Others | 554,186,268 | 39,792,895 | 593,979,163 |
| Total maximum credit risk exposure | 65,108,291,849 | 13,542,160,722 | 78,650,452,571 |
| **At 31 December 2015** | | | |
| Refundable deposits | 441,460,235 | 76,412,914 | 517,873,149 |
| Financial assets at fair value through profit or loss | 20,421,644,420 | 158,148,519 | 20,579,792,939 |
| Derivative financial assets | 349,715,701 | 382,076,395 | 731,792,096 |
| Reverse REPOs | 1,411,754,885 | 144,858,736 | 1,556,613,621 |
| Receivable from margin clients | 2,883,148,789 | 413,283,258 | 3,296,432,047 |
| Cash held on behalf of brokerage clients | 21,376,543,436 | 2,924,810,076 | 24,301,353,512 |
| Bank balances | 6,095,783,747 | 2,338,119,899 | 8,433,903,646 |
| Accounts receivable | 2,138,576,426 | 4,535,295,517 | 6,673,871,943 |
| Others | 446,867,719 | 31,640,319 | 478,508,038 |
| Total maximum credit risk exposure | 55,565,495,358 | 11,004,645,633 | 66,570,140,991 |

(iii) ***Credit rating analysis of financial assets***

The Group adopts a credit rating approach in managing credit risk of debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amount of debt securities investments analyzed by the rating agency designations as at the end of the reporting periods are as follows:

| | At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Bloomberg comprehensive rating | | |
| — AAA | 70,839,510 | 12,767,638 |
| — From AA- to AA+ | 343,575,826 | 154,287,550 |
| — From A- to A+ | 2,867,363,693 | 1,289,204,552 |
| — Below A- | 2,393,468,791 | 1,784,186,051 |
| Sub-total | 5,675,247,820 | 3,240,445,791 |
| Other comprehensive rating | | |
| — AAA | 22,175,021,480 | 11,624,449,994 |
| — From AA- to AA+ | 1,372,693,362 | 2,165,641,558 |
| — From A- to A+ | — | — |
| — Below A- | — | — |
| Sub-total | 23,547,714,842 | 13,790,091,552 |
| Non-rated (Note) | 1,676,423,137 | 3,549,255,596 |
| Total | 30,899,385,799 | 20,579,792,939 |

*Note:* Non-rated financial assets mainly represent debts instruments and trading securities issued by the MOF, the PBOC and other policy banks, which are creditworthy issuers in the market but are not rated by independent rating agencies.

(b) **Liquidity risk**

Liquidity risk arises when the Group, despite being solvent at the time, cannot obtain sufficient funding in a timely basis or at a reasonable cost to finance the expansion of its assets or to pay off its obligation when it falls due.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the undiscounted contractual cash flows of the Group's non-derivative and derivative financial liabilities (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting periods), categorized by their remaining contractual maturities at the end of the reporting periods calculated based on the earliest date the Group can be required to pay:

| | At 30 June 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Overdue/ repayable on demand** | **Within 1 year (inclusive)** | **1 - 5 years (inclusive)** | **More than 5 years** | **Undated** | **Total** |
| Financial liabilities | | | | | | |
| Accounts payable to brokerage clients | 21,439,355,519 | — | — | — | — | 21,439,355,519 |
| Placements from financial institutions | — | 4,998,203,734 | 1,643,245,864 | — | — | 6,641,449,598 |
| Financial liabilities at fair value through profit or loss | — | 9,340,828,311 | — | — | — | 9,340,828,311 |
| Derivative financial liabilities | — | 1,414,201,921 | 16,629,674 | — | — | 1,430,831,595 |
| REPOs | — | 15,956,426,938 | — | — | — | 15,956,426,938 |
| Short-term debt securities issued | — | 1,235,028,274 | 4,068,895,890 | — | — | 5,303,924,164 |
| Long-term debt securities issued | — | 3,376,179,000 | 6,097,958,000 | — | — | 9,474,137,000 |
| Others | 8,774,769,441 | 11,062,170,611 | 38,875 | — | — | 19,836,978,927 |
| Total | 30,214,124,960 | 47,383,038,789 | 11,826,768,303 | — | — | 89,423,932,052 |

| | At 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 - 5 years (inclusive) | More than 5 years | Undated | Total |
| Financial liabilities | | | | | | |
| Accounts payable to brokerage clients | 25,218,051,446 | — | — | — | — | 25,218,051,446 |
| Placements from financial institutions | — | 1,715,952,905 | 1,688,572,556 | — | — | 3,404,525,461 |
| Financial liabilities at fair value through profit or loss | — | 5,584,316,162 | — | — | — | 5,584,316,162 |
| Derivative financial liabilities | — | 1,050,998,003 | 20,013,925 | — | — | 1,071,011,928 |
| REPOs | — | 14,072,208,130 | — | — | — | 14,072,208,130 |
| Short-term debt securities issued | — | 1,753,660,479 | — | — | — | 1,753,660,479 |
| Long-term debt securities issued | — | 353,304,554 | 4,623,218,220 | 3,258,642,980 | — | 8,235,165,754 |
| Others | 6,027,521,646 | 8,258,869,380 | — | — | — | 14,286,391,026 |
| Total | 31,245,573,092 | 32,789,309,613 | 6,331,804,701 | 3,258,642,980 | — | 73,625,330,386 |

(c) **Market risk**

Market risk is the risk of loss in the Group's income and value of financial instruments held arising from the adverse market movements such as changes in interest rates, stock prices, and foreign exchange rates. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximize the risk adjusted return. Stress testing is conducted regularly, and the potential movements of risk and operating indicators in a variety of scenarios are calculated.

The Group monitors the market risk for trading portfolios and non-trading portfolios separately.

(i) ***Market risk of trading portfolios***

Trading portfolio includes financial assets at fair value through profit or loss, derivative financial assets, financial liabilities at fair value through profit or loss, and derivative financial liabilities. The risk exposures are measured and monitored in terms of principal, stop loss limit and etc., and are maintained within the limits set up by management. The Group adopts various kinds of methodologies (such as investment concentration limits, scenario analysis, Value-at-Risk ("VaR"), etc.) to manage market risk. The VaR analysis is a major tool used by the Group to measure and monitor market risk of the trading portfolios.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to the adverse market movements, such as interest rates, foreign exchange rates and stock prices and so on over a specified time horizon and at a given level of confidence. The independent risk management personnel of the Group compute VaR by using a historical simulation method and implement relevant control of market risk. The historical simulation method is used to simulate future profit or loss based on the historical fluctuation of the key market risk factors and the sensitivity of current investment portfolio in respect of such risk factors.

The Group has adopted the historical simulation method and set 95% as its confidence level to compute its daily VaR based on historical data of the previous three years, i.e. there is 95% chance that the expected loss based on historical data will not exceed the VaR value regarding the Group's investment portfolio. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

— When there is severe market illiquidity for a prolonged period, the realizable value of the Group's investment portfolio in a trade day may vary from the expected value due to a 1-day time horizon for VaR;

— The assigned confidence level of 95% does not reflect losses that may occur beyond this level. Even within the model used there is a probability that losses could exceed the VaR;

— VaR is calculated on an end-of-day basis and does not reflect intra day exposures;

— The use of historical data as a basis for determining the possible distribution of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

— The VaR measure is dependent upon the Group's position and the market volatility. The VaR of an unchanged position changes if the market volatility changes.

VaR analysis by risk categories:

| | | For the six months ended 30 June 2016 | | |
|---|---|---|---|---|
| | **At 30 June 2016** | **Average** | **Highest** | **Lowest** |
| Price-sensitive financial instruments | 7,366,709 | 7,678,636 | 17,219,034 | 2,271,047 |
| Interest-rate-sensitive financial instruments | 19,916,147 | 22,472,585 | 26,850,923 | 15,675,647 |
| Exchange-rate-sensitive financial instruments | 10,938,148 | 8,360,300 | 10,938,148 | 5,713,761 |
| Total portfolio | 26,431,258 | 26,186,368 | 29,997,373 | 21,582,425 |

| | At 31 December 2015 | For the year ended 31 December 2015 Average | Highest | Lowest |
|---|---|---|---|---|
| Price-sensitive financial instruments | 11,366,690 | 7,379,698 | 13,498,988 | 3,058,591 |
| Interest-rate-sensitive financial instruments | 18,817,474 | 14,404,938 | 21,538,018 | 7,421,385 |
| Exchange-rate-sensitive financial instruments | 5,644,320 | 4,275,177 | 9,710,264 | 139,412 |
| Total portfolio | 22,454,205 | 16,735,503 | 24,481,161 | 8,944,654 |

(ii) ***Market risk of non-trading portfolios***

(1) *Interest rate risk*

The non-trading portfolios of the Group are subject to the risk of interest rate fluctuations. Except for the financial assets and liabilities managed through VaR, the Group's major interest-earning assets in its non-trading portfolios include deposits at banks and in clearing houses and reverse REPOs; and its interest-bearing liabilities mainly include short-term debt securities issued, placements from financial institutions, REPOs and long-term debt securities issued.

The Group adopts sensitivity analysis to measure the interest rate risk of non-trading portfolios. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

| | Sensitivity of net profit and equity At 30 June 2016 | At 31 December 2015 |
|---|---|---|
| Change in basis points | | |
| Increase by 50 basis points | (49,802,342) | (41,675,673) |
| Decrease by 50 basis points or decrease to 0 | 62,397,323 | 42,495,268 |

The sensitivity analysis is based on the static rate risk profile of the Group's assets and liabilities. The sensitivity analysis measures the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions that:

— The 50 basis points of changes in interest rates at the end of the reporting periods apply to all of the Group's non-trading financial instruments in the next 12 months;

— There is a parallel shift in the yield curve with the changes in interest rate;

— There are no changes to the assets and liabilities portfolios;

— Other variables (including exchange rate) remain unchanged; and

— Risk management measures undertaken by the Group are not considered.

Due to the above assumptions, the actual changes of interest rate and the impact to the Group's net profit and equity might vary from the estimated results of the sensitivity analysis.

(2) *Currency risk*

Currency risk is the risk arising from the fluctuation of foreign exchange rates. The Group adopts sensitivity analysis to measure currency risk.

Assuming a 10% weakening of the RMB against the USD, the HKD and other currencies at the end of the reporting periods which would apply to the next 12 months with all other variables unchanged and all risk management measures undertaken by the Group set aside, the Group's net profit or loss and equity would have been affected as follows:

| | | Sensitivity of net profit and equity | |
|---|---|---|---|
| **Currency** | **Changes** | **At 30 June 2016** | **At 31 December 2015** |
| USD | 10% | (182,394,479) | (245,253,461) |
| HKD | 10% | 215,274,680 | 208,477,797 |
| Others | 10% | (126,015,582) | (23,635,476) |

A 10% strengthening of the RMB against the USD, the HKD and other currencies at the reporting date would have had the equal but opposite effect on the Group's net profit or loss and equity, on the basis that all other variables remain unchanged.

Due to the above assumptions, the actual changes in foreign currency rate and the impact to the Group's net profit or loss and equity might vary from the estimated results of the sensitivity analysis.

## 43 SUBSEQUENT EVENTS

### (a) Issuance of corporate bonds

The Company issued "2016 CICC Corporate Bond" with a total principal amount of RMB4 billion on 18 July 2016. The corporate bonds are divided into two types:

— Type one bears interest of 2.99% per annum with a principal amount of RMB3 billion and is repayable on 18 July 2021. The Company has an option to redeem the bonds on 18 July 2019.

— Type two bears interest of 3.29% per annum with a principal amount of RMB1 billion and is repayable on 18 July 2023. The Company has an option to redeem the bonds on 18 July 2021.

(b) **Issuance of subordinated bonds**

The Company issued "2016 CICC Subordinated Bond" with a total principal amount of RMB2 billion on 21 July 2016. The subordinated bond bears interest of 3.25% per annum and is repayable on 21 July 2021. The Company has an option to redeem the bonds on 21 July 2018.

(c) **Repayment of subordinated bonds**

The Company has redeemed "2013 CICC Subordinated Bond" with a principal amount of RMB3 billion on 25 July 2016.

(d) **Issuance of beneficiary certificates**

The Company has issued "CICC Shangpin B No.3", "CICC Index B No.1", "CICC Tongxin No.8", "CICC Shangpin A No.7", "CICC Shangpin A No.8", "CICC Shangpin A No.11" and "CICC Shangpin A No.12" with a total principal amount of RMB83 million in July 2016.

The Company has issued "CICC Shangpin A No.5", "CICC Shangpin A No.13", "CICC Shangpin A No.14", "CICC Shangpin A No.15", "CICC Tongde No.1", "CICC Jinyintong No.14" and "CICC Jinyintong No.15" with a total principal amount of RMB1,177 million from 1 August 2016 to 26 August 2016.

(e) **Repayment of beneficiary certificates**

The Company has redeemed "CICC Jinyintong No.7", "CICC Shangpin A No.1", "CICC Shangpin A No.2" and "CICC Shangpin A No.3" with a total principal amount of RMB431 million in July 2016.

The Company has redeemed "CICC Shangpin A No.4", "CICC Jinyintong No.8", and "CICC Jinyintong No.9" with a total principal amount of RMB1,010 million from 1 August 2016 to 26 August 2016.

## 2. STATEMENT OF INDEBTEDNESS OF THE COMPANY

As of October 31, 2016, the Latest Practicable Date for determining the indebtedness of the Company, the Company had placements from financial institutions of RMB5,177.9 million, short-term debt securities of RMB7,036.4 million, long-term debt securities of RMB13,361.2 million and perpetual subordinated bonds of RMB1,000.0 million.

The following table sets forth a breakdown of the indebtedness of the Group by type as of the dates indicated.

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2016 |
| | | | | | (unaudited) |
| | (in millions of RMB) | | | | |
| **Placements from financial institutions** | | | | | |
| Placements from China Securities Finance | 380.0 | 853.0 | 996.0 | 1,600.0 | 1,600.0 |
| Placements from other financial institutions | 146.3 | 676.6 | 2,264.2 | 4,839.6 | 3,577.9 |
| **Short-term Debt Securities Issued** | | | | | |
| Short-term commercial papers | 1,000.0 | 800.0 | — | — | — |
| Beneficiary certificates | — | 100.0 | 1,700.0 | 4,919.2 | 7,036.4 |
| **Long-term Debt Securities Issued** | | | | | |
| Subordinated bonds | 3,000.0 | 3,000.0 | 5,000.0 | 5,000.0 | 4,000.0 |
| Corporate bonds | — | — | — | — | 6,000.0 |
| Notes payable | 1,006.0 | 1,009.6 | 1,071.4 | 3,292.6 | 3,361.2 |
| **Perpetual subordinated bonds** | — | — | 1,000.0 | 1,000.0 | 1,000.0 |
| ***Total*** | **5,532.3** | **6,439.2** | **12,031.6** | **20,651.4** | **26,575.5** |

Other than (i) the placements from China Securities Finance, which were secured with a margin deposit of approximately RMB330.0 million in China Securities Finance, and (ii) the USD500.0 million medium-term notes issued by a subsidiary of China International Capital Corporation (Hong Kong) Limited ("**CICC Hong Kong**"), which was guaranteed by CICC Hong Kong, none of the other indebtedness of the Company was secured or guaranteed.

**Placements from Financial Institutions**

***Placements from China Securities Finance***

As of December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the balance of the borrowings from China Securities Finance by the Company was RMB380.0 million, RMB853.0 million, RMB996.0 million, and RMB1,600.0 million, respectively. As of October 31, 2016, the balance of such borrowing was RMB1,600.0 million.

***Placements from Other Financial Institutions***

As of December 31, 2013, 2014 and 2015 and June 30, 2016, the balance of the borrowings from other financial institutions was RMB146.3 million, RMB676.6 million, RMB2,264.2 million and RMB4,839.6 million, respectively. As of October 31, 2016, the placements from other financial institutions were RMB3,577.9 million, which were unsecured and had an interest rate ranging from 2.63% to 4.00% per year.

***Banking Facilities***

As of October 31, 2016, the Company had unutilized banking facilities of HK$3,026.0 million and US$1,029.0 million.

**Short-term Debt Securities Issued**

***Short-term Commercial Papers***

During the three years ended December 31, 2013, 2014 and 2015 and up to June 30, 2016, the Company completed 15 issuances of short-term commercial papers in an aggregate principal amount of RMB13,400.0 million on the PRC inter-bank market. As of October 31, 2016, the Company had no outstanding short-term commercial papers.

***Beneficiary Certificates***

For the three years ended December 31, 2013, 2014 and 2015 and up to June 30, 2016, the Company completed 43 issuances of short-term beneficiary certificates in an aggregate principal amount of RMB8,189.2 million with a maturity period of less than one year. As of October 31, 2016, 39 issuances of beneficiary certificates were outstanding which were unsecured and bearing fixed interest rates or interest rates linked to certain stock indexes.

**Long-term Debt Securities Issued**

***Subordinated bonds***

The Company issued subordinated bonds with a principal amount of RMB3.0 billion on July 25, 2013 with a term of six years carrying interest at a rate of 6.0% per annum for the first three years and 9.0% per annum from the fourth year to the sixth year, payable annually. The Company has an option to redeem the bonds on July 25, 2016. The Company has redeemed the bonds on July 25, 2016.

The Company issued subordinated bonds with a principal amount of RMB2.0 billion on May 29, 2015 with a term of six years carrying interest at a rate of 5.25% per annum for the first three years and 8.25% per annum from the fourth year to the sixth year, payable annually. The Company has an option to redeem the bonds on May 29, 2018.

The Company issued subordinated bonds with a total principal amount of RMB2 billion on July 21, 2016, with a term of five years carrying interest at a rate of 3.25% per annum for the first two years and 6.25% per annum from the third year to the fifth year, payable annually. The Company has an option to redeem the bonds on July 21, 2018.

***Corporate Bonds***

The Company issued corporate bonds with a total principal amount of RMB4 billion on July 18, 2016. The corporate bonds are divided into two types:

— Type one bears interest of 2.99% per annum with a principal amount of RMB3 billion and is repayable on July 18, 2021. The Company has an option to redeem the bonds on July 18, 2019; and

— Type two bears interest of 3.29% per annum with a principal amount of RMB1 billion and is repayable on July 18, 2023. The Company has an option to redeem the bonds on July 18, 2021.

The Company issued corporate bonds with a total principal amount of RMB2 billion on October 27, 2016. The corporate bonds are divided into two types:

— Type one bears interest of 2.95% per annum with a principal amount of RMB1.1 billion and is repayable on October 27, 2021. The Company has an option to redeem the bonds on October 27, 2019; and

— Type two bears interest of 3.13% per annum with a principal amount of RMB0.9 billion and is repayable on October 27, 2023. The Company has an option to redeem the bonds on October 27, 2021.

***Notes Payable***

CICC Hong Kong a wholly-owned subsidiary of the Company, issued notes in an aggregate principal amount of USD165.0 million on April 28, 2011 with a term of ten years, carrying a 6.375% interest rate per annum, payable semi-annually.The Company has an option to redeem these notes after April 28, 2016. CICC Hong Kong has fully redeemed the notes on April 29, 2016.

CICC Hong Kong has guaranteed USD500.0 million medium-term notes issued by its wholly owned subsidiary CICC Hong Kong Finance 2016 MTN Limited on May 18, 2016 with a maturity date of May 18, 2019. Interests of the notes are paid semi-annually.

Apart from the foregoing information about the indebtedness, the Company did not have, as of October 31, 2016, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, material hire purchase and finance lease commitments, any guarantees or other material contingent liabilities. The Company, in accordance with its financing needs, may from time to time to formulate external financing plans.

**Perpetual Subordinated Bonds**

The Company issued perpetual subordinated bonds with a principal amount of RMB1.0 billion on May 29, 2015. The perpetual subordinated bonds bear an interest rate of 5.7% per annum for the first five years and the interest rate will be reset every five years. Upon the end of every five-year interest period, the Company has an option to extend the term of the perpetual subordinated bonds for another five-year period.

## 3. WORKING CAPITAL SUFFICIENCY OF THE ENLARGED GROUP

Taking into account the financial resources available to the Enlarged Group, including its existing cash and cash equivalents and cash flow from operations, the Directors believe that the Enlarged Group has available sufficient working capital for at least the next 12 months from the date of this circular.

## 4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there is no material change in the financial or trading position of the Company since December 31, 2015, being the latest published audited financial statements of the Company were made up.

## 5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY

Set out below is the management discussion and analysis of the Company for each of the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, which are extracted from the (i) the prospectus of the Company dated October 27, 2015, (ii) the annual report of the Company for the year ended December 31, 2015, and (iii) the interim report of the Company for the six months ended June 30, 2016. The financial data in respect of the Company, for the purpose of this circular, is derived from the audited financial information of the Company for the two years ended December 31, 2013 and 2014, the audited consolidated financial statements of the Company for the year ended December 31, 2015 and the unaudited consolidated financial statements of the Company for the six months ended June 30, 2016.

## A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY FOR THE SIX MONTHS ENDED JUNE 30, 2016

## I. ANALYSIS OF FINANCIAL STATEMENTS

### (i) Profitability Analysis of the Company

During the first half of 2016, influenced by factors such as slow economic growth and the downturn in the A-share market, our Group's revenue and profit has declined as compared to the same period of the last year. During the first half of 2016, our Group realized a total revenue and other income of RMB3,220.8 million, representing a year-on-year decrease of 34.0%, among which the investment banking business realized a revenue of RMB730.1 million, representing a year-on-year decrease of 26.8%; the equities business realized a revenue of RMB931.4 million, representing a year-on-year decrease of 37.3%; the FICC business realized a revenue of RMB594.5 million, representing a year-on-year decrease of 40.3%; the wealth management business realized a revenue of RMB522.3 million, representing a year-on-year decrease of 42.0%; the investment management business realized a revenue of RMB333.3 million, representing a year-on-year decrease of 25.7%; other businesses realized a revenue of RMB109.2 million, representing a year-on-year increase of 100.7%.

During the first half of 2016, our Group's total expense amounted to RMB2,507.2 million, representing a year-on-year decrease of 26.4%. This was mainly due to the year-on-year decrease of 45.5% in staff costs and the year-on-year decrease of 56.8% in business tax and surcharges.

During the first half of 2016, our Group realized profit attributable to shareholders/equity holders of our Company and holders of other equity instruments of RMB574.9 million, representing a year-on-year decrease of 49.4%; the Group realized basic and diluted earnings per share of RMB0.24, representing a year-on-year decrease of 64.7% and the weighted average return on net assets amounted to 3.5%, representing a year-on-year decrease of 9.7 percentage points.

### (ii) Asset Structure and Quality

As at June 30, 2016, the equity attributable to shareholders of our Company and holders of other equity instruments amounted to RMB17,037.9 million, increasing by RMB595.9 million or 3.6% as compared to the end of 2015, which was mainly due to the RMB574.9 million profit attributable to shareholders of our Company and holders of other equity instruments.

The asset structure remained stable and the asset quality and liquidity maintained at a good level. As at June 30, 2016, the total assets of the Group amounted to RMB107,572.3 million, representing an increase of 14.3% or RMB13,463.6 million as compared to the end of 2015. After the deduction of accounts payable to brokerage clients, the Group's total assets amounted to RMB86,133.0 million, increasing by RMB17,242.3 million or 25.0% as compared to the end of 2015. The Group's financial assets at fair value through profit or loss and derivative financial assets amounted to RMB59,120.3 million, accounting for 55.0% of total assets; cash and bank balances amounted to RMB12,186.8 million, accounting for 11.3% of total assets; receivables from margin clients and financial assets held under resale agreements amounted to RMB5,810.3 million, accounting for 5.4% of the total assets; investments in associates and joint ventures and available-for-sale financial assets amounted to RMB2,021.3 million, accounting for 1.9% of total assets. During the Reporting Period, the Group has no significant impairment in the Group's assets.

As at June 30, 2016, the total liabilities of the Group amounted to RMB90,504.5 million, increasing RMB12,837.7 million or 16.5% as compared to the end of 2015; after deduction of accounts payable to brokerage clients, the total liabilities of the Group amounted to RMB69,065.1 million, increasing RMB16,616.4 million or 31.7% as compared to the end of 2015. The Group's financial assets sold under repurchase agreements amounted to RMB15,920.0 million, accounting for 17.6% of total liabilities; long-term and short-term debt securities issued amounted to RMB13,211.8 million, accounting for 14.6% of total liabilities; financial liabilities at fair value through profit or loss and derivative financial liabilities amounted to RMB10,771.7 million, accounting for 11.9% of total liabilities; placements from financial institutions amounted to RMB6,439.6million, accounting for 7.1% of total liabilities.

The Gearing ratio was relatively stable. As at June 30, 2016, after the deduction of accounts payable to brokerage clients, the Gearing ratio of the Group was 80.2%, increasing by 4.1 percentage points from the Gearing ratio of 76.1% as at December 31, 2015.

(iii) **Cash Flows**

If excluding the impact of cash held on behalf of our brokerage clients, the cash and cash equivalents of the Group in the first half of 2016 had a net increase of RMB3,285.9 million, while the net increase in cash and cash equivalents in the same period of 2015 was RMB2,716.3 million, representing an increase of RMB569.6 million, which was mainly due to the year-on-year decrease of RMB2,081.2 million in net cash outflow resulted from operating and investing activities and the year-on-year decrease of RMB1,511.6 million in net cash inflow generated from financing activities.

In terms of structure, the net cash outflow resulted from operating activities in the first half of 2016 was RMB240.2 million, while in the same period of 2015 it was RMB2,264.4 million, mainly due to the decreased margin financing cash usage as a result of decreased financing demand from clients. The net cash outflow resulted from investing activities in the first half of 2016 was RMB60.4 million, while in the same period of 2015 it was RMB117.3 million, which was mainly due to the increase in cash received from disposal of investments, which were partially offset by the payment for acquisition of investments. The net cash generated from financing activities in the first half of 2016 was RMB3,586.4 million, while in the same period of 2015 it was RMB5,098.0 million, which was mainly due to the increased cash outflow resulted from repayment of debt securities issued.

(iv) **Operating Revenue and Profit Analysis**

1. ***Analysis of Items in Statement of Profit or Loss and Other Comprehensive Income***

Summary Results of Operations

In the first half of 2016, the Group realized profit after tax of RMB574.9 million, representing a decrease of 49.4% as compared to the six months ended June 30, 2015, and the main results of operations of the Group are listed as follows:

Unit: RMB in million

| Item | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **Revenue** | | | | |
| Fee and commission income | 2,107.1 | 3,118.9 | (1,011.8) | (32.4%) |
| Interest income | 455.3 | 419.1 | 36.2 | 8.6% |
| Investment income | 606.4 | 1,313.7 | (707.3) | (53.8%) |
| Total revenue | 3,168.7 | 4,851.7 | (1,682.9) | (34.7%) |
| Other income | 52.1 | 29.4 | 22.7 | 77.3% |
| **Total revenue and other income** | 3,220.8 | 4,881.0 | (1,660.2) | (34.0%) |
| Total expenses | 2,507.2 | 3,404.8 | (897.6) | (26.4%) |
| **Share of profits of associates and joint ventures** | 25.7 | 36.2 | (10.4) | (28.8%) |
| **Profit before income tax** | 739.4 | 1,512.4 | (773.1) | (51.1%) |
| Income tax expense | 164.5 | 376.3 | (211.8) | (56.3%) |
| Profit for the period | 574.9 | 1,136.1 | (561.3) | (49.4%) |
| **Attributable to:** | | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | 574.9 | 1,136.1 | (561.3) | (49.4%) |

Revenue Breakdown

Due to slowdown in the economic growth and downturn of the capital market, the Group's income and profit experienced a decrease as compared to the same period in the last year. In the first half of 2016, the Group's total revenue and other income decreased by 34.0% to RMB3,220.8 million as compared to the six months ended June 30, 2015. Among others, fee and commission income accounted for 65.4%, representing an increase of 1.5 percentage points as compared to the six months ended June 30, 2015; interest income took up 14.1%, representing an increase of 5.5 percentage points as compared to the six months ended June 30, 2015; investment income accounted for 18.8%, representing a decrease of 8.1 percentage points as compared to the six months ended June 30, 2015. Breakdown of the Group's revenue for the recent two periods is listed as follows:

Unit: RMB in million

| Item | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change |
|---|---|---|---|
| Fee and commission income | 65.4% | 63.9% | Increased by 1.5 percentage points |
| Interest income | 14.1% | 8.6% | Increased by 5.5 percentage points |
| Investment income | 18.8% | 26.9% | Decreased by 8.1 percentage points |
| Other income | 1.6% | 0.6% | Increased by 1.0 percentage points |
| Total | 100.0% | 100.0% | |

In the first half of 2016, due to the poor performance of the capital market, the Group's investment income experienced a large decrease as compared to the same period in the last year, resulting in a smaller proportion in total revenue and other income.

Net Fee and Commission Income

In the first half of 2016, the Group realized a net fee and commission income of RMB1,972.2 million, representing a decrease of 33.6% as compared to the six months ended June 30, 2015. Breakdown of the Group's net fee and commission income for the six months ended June 30, 2016 is listed as follows:

Unit: RMB in million

| Item | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **Fee and commission income** | | | | |
| Brokerage commission income | 833.5 | 1,514.6 | (681.0) | (45.0%) |
| Underwriting and sponsoring fees | 747.0 | 968.8 | (221.9) | (22.9%) |
| Financial advisory fees | 163.2 | 194.4 | (31.1) | (16.0%) |
| Investment advisory fees | 59.3 | 79.8 | (20.5) | (25.7%) |
| Asset management fees | 304.1 | 361.3 | (57.2) | (15.8%) |
| **Total fee and commission income** | 2,107.1 | 3,118.9 | (1,011.8) | (32.4%) |
| **Fee and commission expense** | 134.9 | 148.0 | (13.1) | (8.8%) |
| **Net fee and commission income** | 1,972.2 | 2,970.9 | (998.7) | (33.6%) |

The table below sets forth the respective proportions of the Group's fee and commission income:

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change |
|---|---|---|---|
| Brokerage commission income | 39.6% | 48.6% | Decreased by 9.0 percentage points |
| Underwriting and sponsoring fees | 35.4% | 31.1% | Increased by 4.4 percentage points |
| Financial advisory fees | 7.7% | 6.2% | Increased by 1.5 percentage points |
| Investment advisory fees | 2.8% | 2.6% | Increased by 0.3 percentage points |
| Asset management fees | 14.4% | 11.6% | Increased by 2.8 percentage points |
| Fee and commission income | 100.0% | 100.0% | |

Brokerage commission income decreased by RMB681.0 million or 45.0% as compared to the six months ended June 30, 2015, mainly due to a significant drop in the market trading volumes in the first half of 2016 compared to the same period in 2015, where the average daily trading volume in A-share stocks and funds dropped by 54.4% and the average daily trading volume in H-share stocks dropped by 46.1%. Meanwhile, the average commission rate of the Company's brokerage business was 0.057%, maintaining a market premium.

Underwriting and sponsoring fees decreased by RMB221.9 million or 22.9% as compared to the six months ended June 30, 2015, mainly due to a decrease in the Company's business scale of A-share and H-share equity financing as compared to the six months ended June 30, 2015.

Financial advisory fees decreased by RMB31.1 million or 16.0% as compared to the six months ended June 30, 2015, mainly due to a decrease in the revenue from M&A projects of the Company as compared to the six months ended June 30, 2015.

Investment advisory fees decreased by RMB20.5 million or 25.7% as compared to the six months ended June 30, 2015, primarily because of less active capital markets as compared to the six months ended June 30, 2015, resulting in a decrease in the income from investment advisory services of the Company.

Asset management fees decreased by RMB57.2 million or 15.8% as compared to the six months ended June 30, 2015, mainly due to the decrease in the investment return in the capital markets as compared to the six months ended June 30, 2015, resulting in a decrease in the performance fees for asset management business.

Net Interest Income

In the first half of 2016, the Group incurred a net interest expense of RMB173.2 million, representing an increase of 90.4% as compared to the six months ended June 30, 2015. Breakdown of the Group's net interest expense for the six months ended June 30, 2016 is listed as follows:

Unit: RMB in million

| Item | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **Interest income** | 455.3 | 419.1 | 36.2 | 8.6% |
| Interest income from financial institutions | 268.3 | 158.4 | 110.0 | 69.4% |
| Interest income from margin financing and securities lending | 129.9 | 220.8 | (90.9) | (41.2%) |
| Interest income from financial assets held under resale agreements | 56.8 | 39.8 | 17.0 | 42.7% |
| Others | 0.2 | 0.1 | 0.1 | 101.1% |
| **Interest expenses** | 628.5 | 510.1 | 118.4 | 23.2% |
| Interest expenses of accounts payable to brokerage clients | 67.4 | 49.4 | 18.0 | 36.5% |
| Interest expenses on financial assets sold under repurchase agreements | 212.0 | 201.4 | 10.5 | 5.2% |
| Interest expenses on placements from financial institutions | 84.9 | 66.5 | 18.4 | 27.6% |
| Interest expenses on debt securities issued | 247.4 | 186.0 | 61.5 | 33.0% |
| Others | 16.9 | 6.8 | 10.0 | 146.4% |
| **Net interest expense** | 173.2 | 91.0 | 82.2 | 90.4% |

Interest income from financial institutions increased by RMB110.0 million or 69.4% as compared to the six months ended June 30, 2015, mainly due to an increase of 94.0% in interest income from our own bank deposits to RMB100.7 million from RMB51.9 million for the six months ended June 30, 2015 and an increase of 57.4% in interest income from clients' bank deposits to RMB167.6 million from RMB106.5 million for the six months ended June 30, 2015.

Interest income from margin financing and securities lending decreased by RMB90.9 million or 41.2% as compared to the six months ended June 30, 2015, mainly due to our clients' decreased demand for margin financing and securities lending under the unfavorable domestic stock market conditions and a decrease in the average business scale of our margin financing and securities lending business.

Interest income from financial assets held under resale agreements increased by RMB17.0 million or 42.7% as compared to the six months ended June 30, 2015, mainly due to an increase of 42.9% in interest income from stock-based lending to RMB55.3 million from RMB38.7 million for the six months ended June 30, 2015.

Interest expenses increased by RMB118.4 million or 23.2% as compared to the six months ended June 30, 2015, mainly due to the issuance of the RMB2 billion subordinated bonds in May 2015 and the arrangement of the USD250 million syndication loan in July 2015 which increased the interest expenses in the first half of 2016 significantly while had limited impact on the interest expenses in the same period in 2015.

Investment Income

In the first half of 2016, the Group recognized an investment income of RMB606.4 million, representing a decrease of 53.8% as compared to the six months ended June 30, 2015. Breakdown of the Group's investment income for the six months ended June 30, 2016, is listed as follows:

Unit: RMB in million

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **Investment income** | | | | |
| Net gains from disposal of available-for-sale financial assets | 2.7 | 14.7 | (11.9) | (81.4%) |
| Dividend income from available-for-sale financial assets | 17.7 | 12.9 | 4.9 | 37.7% |
| Net (losses)/gains from financial instruments at fair value through profit or loss | (2.6) | 3,486.6 | (3,489.2) | N/A |
| — Equity investments | (524.1) | 2,889.8 | (3,413.9) | N/A |
| — Debt securities | 435.9 | 435.8 | 0.1 | 0.0% |
| — Funds and other investments | 85.6 | 161.0 | (75.4) | (46.8%) |
| Net gains/(losses) from derivative financial instruments | 588.5 | (2,200.4) | 2,788.9 | N/A |
| **Total** | 606.4 | 1,313.7 | (707.3) | (53.8%) |

Net gains from disposal of available-for-sale financial assets decreased by RMB11.9 million or 81.4% as compared to the six months ended June 30, 2015, mainly due to a decrease in the number of investment projects the Company quitted as compared to the six months ended June 30, 2015.

Dividend income from available-for-sale financial assets increased by RMB4.9 million or 37.7% as compared to the six months ended June 30, 2015, mainly due to dividend income from the equity investments held by the Company.

Net (losses)/gains from financial instruments at fair value through profit or loss were generated from the following categories of investments:

— In the first half of 2016, the Group incurred investment loss of RMB524.1 million while in the first half of 2015 the investment gain amounted to RMB2,889.8 million, mainly due to the significant drop in the stock prices in the first half of 2016 compared to the same period in 2015 which resulted in a large decrease in investment income.

— For the first half of 2016 and 2015, investment gains from debt securities were RMB435.9 million and RMB435.8 million respectively, substantially the same as compared to each other.

— For the first half of 2016 and 2015, investment gains from funds and other investments were RMB85.6 million and RMB161.0 million respectively, mainly due to decrease in the positions and rate of return of funds and other investments for the first half of 2016 compared to the same period of 2015.

In the first half of 2016, net investment gains from derivative financial instruments were RMB588.5 million while in the first half of 2015, net investment losses from derivative financial instruments were RMB2,200.4 million, mainly due to the gains and losses generated from the total return swap business. Upon consideration of the hedge position held, the Company's exposure to the market risk and the impact on its profit or loss due to the volatility of the fair value of the underlying assets under the total return swap agreements is limited.

Operating Expenses

In the first half of 2016, the Group's operating expenses (excluding fee and commission expenses and interest expenses, the same below) amounted to RMB1,743.8 million, representing a decrease of 36.5% as compared to the six months ended June 30, 2015. Main compositions of the Group's operating expenses for the six months ended June 30, 2016, are listed as follows:

Unit: RMB in million

| Item | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Staff costs | 1,150.4 | 2,108.9 | (958.6) | (45.5%) |
| Depreciation and amortization expenses | 31.9 | 23.5 | 8.4 | 35.6% |
| Business tax and surcharges | 85.0 | 196.7 | (111.7) | (56.8%) |
| Other operating expenses | 476.9 | 425.6 | 51.4 | 12.1% |
| Reversal of impairment losses | (0.5) | (8.1) | 7.6 | (93.6%) |
| **Total** | 1,743.8 | 2,746.7 | (1,002.9) | (36.5%) |

Staff costs decreased by RMB958.6 million or 45.5% as compared to the six months ended June 30, 2015, mainly due to the decline in the Company's overall performance resulting in the decreased staff costs.

Depreciation and amortization expenses increased by RMB8.4 million or 35.6% as compared to the six months ended June 30, 2015, mainly due to the increase in office equipment and leasehold improvements of the Company.

Business tax and surcharges decreased by RMB111.7 million or 56.8% as compared to the six months ended June 30, 2015, mainly due to a decrease in taxable income of the Company.

Other operating expenses increased by RMB51.4 million or 12.1% as compared to the six months ended June 30, 2015, mainly due to the increase in bank charges and foreign exchange loss.

2. *Segment Results*

We have five principal business segments: investment banking, equities, FICC, wealth management and investment management. Others mainly comprises of other business departments and back offices.

Unit: RMB in million

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **Investment Banking** | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 701.8 | 991.4 | (289.6) | (29.2%) |
| Interest income | 0.9 | 0.7 | 0.2 | 31.8% |
| Investment income | 13.4 | 5.3 | 8.1 | 154.5% |
| Other income | 14.1 | 0.1 | 13.9 | 9,974.0% |
| Total | 730.1 | 997.5 | (267.4) | (26.8%) |
| **Segment expenses** | (560.8) | (775.7) | 214.8 | (27.7%) |
| **Profit before income tax** | 169.3 | 221.9 | (52.5) | (23.7%) |
| **Segment margin**(1) | 23.2% | 22.2% | Increased by 0.9 percentage points | |
| **Equities** | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 628.1 | 1,136.3 | (508.2) | (44.7%) |
| Interest income | 126.1 | 108.5 | 17.6 | 16.2% |
| Investment income | 172.7 | 239.9 | (67.2) | (28.0%) |
| Other income | 4.6 | 0.6 | 4.0 | 620.7% |
| Total | 931.4 | 1,485.3 | (553.9) | (37.3%) |
| **Segment expenses** | (397.0) | (532.4) | 135.3 | (25.4%) |
| **Profit before income tax** | 534.4 | 952.9 | (418.5) | (43.9%) |
| **Segment margin**(1) | 57.4% | 64.2% | Decreased by 6.8 percentage points | |

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **FICC** | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 171.8 | 43.0 | 128.9 | 299.8% |
| Interest income | 50.4 | 4.4 | 46.0 | 1,046.1% |
| Investment income | 361.1 | 947.8 | (586.8) | (61.9%) |
| Other income | 11.3 | — | 11.3 | N/A |
| Total | 594.5 | 995.2 | (400.7) | (40.3%) |
| **Segment expenses** | (556.7) | (447.4) | (109.3) | 24.4% |
| **Profit before income tax** | 37.8 | 547.8 | (510.0) | (93.1%) |
| **Segment margin**[1] | 6.4% | 55.0% | Decreased by 48.7 percentage points | |
| **Wealth Management** | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 294.5 | 560.0 | (265.5) | (47.4%) |
| Interest income | 214.6 | 267.8 | (53.2) | (19.9%) |
| Investment income | 8.3 | 69.7 | (61.4) | (88.1%) |
| Other income | 4.8 | 2.4 | 2.4 | 98.6% |
| Total | 522.3 | 899.9 | (377.7) | (42.0%) |
| **Segment expenses** | (403.3) | (538.6) | 135.3 | (25.1%) |
| **Profit before income tax** | 119.0 | 361.3 | (242.3) | (67.1%) |
| **Segment margin**[1] | 22.8% | 40.1% | Decreased by 17.4 percentage points | |

| | Six months ended June 30, 2016 | Six months ended June 30, 2015 | Change | % of change |
|---|---|---|---|---|
| **Investment Management** | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 310.5 | 388.0 | (77.5) | (20.0%) |
| Interest income | 7.3 | 3.5 | 3.8 | 107.7% |
| Investment income | 15.2 | 47.6 | (32.4) | (68.1%) |
| Other income | 0.3 | 9.6 | (9.3) | (97.3%) |
| Total | 333.3 | 448.7 | (115.4) | (25.7%) |
| **Segment expenses** | (338.1) | (326.7) | (11.4) | 3.5% |
| **Share of profits of associates and joint ventures** | 21.2 | 32.2 | (10.9) | (34.0%) |
| **Profit before income tax** | 16.4 | 154.1 | (137.7) | (89.4%) |
| **Segment margin**[1] | 4.9% | 34.4% | Decreased by 29.4 percentage points | |
| **Others**[2] | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 0.3 | 0.1 | 0.2 | 261.6% |
| Interest income | 56.0 | 34.2 | 21.8 | 63.8% |
| Investment income | 35.7 | 3.5 | 32.3 | 928.2% |
| Other income | 17.1 | 16.6 | 0.5 | 2.7% |
| Total | 109.2 | 54.4 | 54.8 | 100.7% |
| **Segment expenses** | (251.2) | (783.9) | 532.7 | (68.0%) |
| **Share of profits of associates and joint ventures** | 4.5 | 4.0 | 0.5 | 13.0% |
| **Loss before income tax** | (137.5) | (725.5) | 588.0 | (81.0%) |

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

(2) The segment margin of "others" segment is not presented because this segment incurred loss before income tax in the relevant years

## II. SIGNIFICANT INVESTMENT AND FINANCING ACTIVITIES OF THE GROUP

### (i) Equity Investment

The Group has no significant equity investment in the first half of 2016.

### (ii) Equity Financing

The Group has no significant equity financing in the first half of 2016.

### (iii) Debt Financing

As at June 30, 2016, the Group's outstanding bonds with an original maturity of over one year are set out in the table below:

| Type | Tranche | Size of Issuance | Value Date | Maturity Date | Interest Rate* | Remarks |
|---|---|---|---|---|---|---|
| | | (RMB million) | | | | |
| Subordinated bonds | CICC 2013 subordinated bonds | 3,000 | July 25, 2013 | July 25, 2019 | Bearing an interest rate of 6% in the first three years; 9% from the fourth to sixth year | The Company has fully redeemed such subordinated bonds on July 25, 2016 |
| | CICC 2015 subordinated Bonds | 2,000 | May 29, 2015 | May 29, 2021 | Bearing an interest rate of 5.25% in the first three years; 8.25% from the fourth to sixth year | The Company has an option to redeem such subordinated bonds on May 29, 2018 |
| Perpetual subordinated bonds | CICC 2015 perpetual subordinated bonds | 1,000 | May 29, 2015 | — | Bearing an interest rate of 5.70% in the first five years, and subject to reset every five years | As at the end of each five-year period, the Company has a right to extend the term of such perpetual subordinated bonds for another five-year period |
| Offshore USD MTN | CICC Hong Kong Finance 2016 MTN Limited USD500 million guaranteed notes due 2019 under Guaranteed Medium Term Note Program | 3,316** | May 18, 2016 | May 18, 2019 | Bearing a coupon rate of 2.75%, priced at T3+192.5 bps, with a corresponding yield of 2.811% | |

* Interest rate refers to per annum interest rate.

** The original size of issuance of such Offshore USD MTN is USD500 million. The exchange rate of USD against RMB was 6.6312

In the first six months of 2016, the Company completed 22 issuances of beneficiary certificates, with an aggregate principal amount of RMB4,619 million. As at June 30, 2016, the balance of beneficiary certificates payable of the Company was RMB4,919 million, among which the balance of the beneficiary certificates with an original maturity one year or less was RMB419 million and the balance of the beneficiary certificates with an original maturity of longer than 1 year was RMB4,500 million. As at June 30, 2016, the balance of short-term commercial papers issued by the Company was nil. As at June 30, 2016, the balance of bank borrowings payable of CICC Hong Kong amounted to USD97 million, equivalent to RMB645 million.

The Company has completed one issuance of corporate bonds and one issuance of subordinated bonds in July 2016, the sizes of which are RMB4,000 million and RMB2,000 million respectively.

## B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY FOR THE YEAR ENDED DECEMBER 31, 2015

### I. Analysis Of Financial Statements

### (i) Profitability Analysis of the Company

In 2015, the Group's operating income and net profit both made a record high. After a few years of transformation and adjustments, its layout for each business became more diversified and revenue structure became more balanced; as a traditional business with advantage, investment banking business maintained a leading position in the market; with equity sales and trading business and FICC business as breakthrough points, transformation to balance-sheet-based service businesses had been promoted; and as new revenue-earning businesses, wealth management business and investment management business realized a significant increase in revenue and their shares in total revenue continued to grow.

In 2015, the Group realized total revenue and other income of RMB9,506.7 million, representing an increase of 54.4% as compared to 2014; the Group realized net profits attributable to shareholders/equity holders and holders of other equity instruments of the Company of RMB1,952.6 million, representing an increase of 74.6% as compared to 2014; the Group realized earnings per share of RMB1.12, representing an increase of 67.2% as compared to 2014 and the weighted average return on net assets amounted to 20.4%, representing an increase of 5.3 percentage points as compared to 2014.

### (ii) Asset Structure and Quality

As at the end of 2015, total assets of the Group amounted to RMB94,108.8 million, representing an increase of 78.6% from RMB52,700.1 million as at the end of 2014; total liabilities amounted to RMB77,666.8 million, representing an increase of 73.7% from RMB44,707.9 million as at the end of 2014; equity attributable to shareholders/equity holders and holders of other equity instruments of the Company amounted to RMB16,442.0 million, representing an increase of 105.7% from RMB7,992.2 million as at the end of 2014. After deduction of accounts payable to brokerage clients of RMB25,218.1 million, the Group's adjusted total assets and adjusted total liabilities amounted to

RMB68,890.7 million and RMB52,448.7 million, respectively. Gearing ratio was 76.1%, representing a decrease of 2.7 percentage points as compared with 78.8% as at the end of 2014. Operating leverage ratio was 4.2 times, representing a decrease of 11.0% as compared with 4.7 times as at the end of 2014.

As of December 31, 2015, the Group's financial assets at fair value through profit or loss, derivative financial assets and available-for-sale financial assets totaled RMB47,394.9 million, accounting for 50.4% of the total assets; cash and bank balances amounted to RMB32,735.4 million, accounting for 34.8% of the total assets; receivable from margin clients and financial assets held under resale agreements totaled RMB4,853.0 million, accounting for 5.2% of the total assets; other assets amounted to RMB9,125.4 million, accounting for 9.7% of the total assets.

As of December 31, 2015, most of the Group's liabilities were short-term liabilities, among which accounts payable to brokerage clients amounted to RMB25,218.1 million, accounting for 32.5% of the total liabilities; financial assets sold under repurchase agreements amounted to RMB14,013.7 million, accounting for 18.0% of the total liabilities; short-term placements from financial institutions and short-term debt securities issued amounted to RMB3,336.8 million, accounting for 4.3% of the total liabilities; financial liabilities at fair value through profit or loss and derivative financial liabilities amounted to RMB6,655.3 million, accounting for 8.6% of the total liabilities; long-term liabilities including subordinated bonds amounted to RMB7,694.8 million, accounting for 9.9% of the total liabilities; other liabilities amounted to RMB20,748.0 million, accounting for 26.7% of the total liabilities.

(iii) **Cash Flows**

In 2015, excluding the change in accounts payable to brokerage clients, net increase in cash and cash equivalents of the Group increased by RMB3,993.4 million to RMB4,369.2 million as compared to 2014.

Net cash outflow used in operating activities amounted to RMB5,226.6 million in 2015, compared to net cash inflow of RMB1,042.1 million in 2014, mainly due to an increase in principal investments in 2015.

Net cash outflow used in investing activities in 2015 amounted to RMB764.1 million, representing an increased outflow of RMB525.3 million from net cash outflow of RMB238.8 million in 2014, mainly due to an increase in external investments.

Net cash inflow generated from financing activities in 2015 amounted to RMB10,360.0 million, compared to net cash outflow of RMB427.5 million for the same period of 2014, mainly due to an increase in cash inflows resulting from proceeds raised from the Company's IPO and the issuance of debt securities in 2015.

(iv) **Financing Channels and Capability**

Currently, the Company raised short-term funding primarily by means of REPOs, inter-bank borrowings, issuance of short-term commercial papers, issuance of beneficiary certificates and bank facilities, and raised long-term funding primarily by means of issuance of subordinated bonds, issuance of perpetual subordinated bonds and syndication loans.

In addition, the Company may also finance through follow-on offerings, rights issue, issuance of corporate bonds, issuance of notes and other ways according to market environment and its own needs.

(v) **Operating Revenue and Profit Analysis**

1. ***Analysis of Items in Statement of Profit or Loss and Other Comprehensive Income***

**Summary Results of Operations**

In 2015, the Group realized profit after tax of RMB1,952.6 million, representing an increase of 74.6% as compared to 2014, and the main results of operations of the Group are listed as follows:

Unit: RMB in million

| Item | 2015 | 2014 | Change | % of change |
|---|---|---|---|---|
| **Revenue** | | | | |
| Fee and commission income | 6,587.8 | 4,151.9 | 2,435.9 | 58.7% |
| Interest income | 1,020.5 | 449.8 | 570.7 | 126.9% |
| Investment income | 1,853.3 | 1,526.8 | 326.6 | 21.4% |
| **Total income** | 9,461.7 | 6,128.5 | 3,333.2 | 54.4% |
| Other income | 45.0 | 27.3 | 17.7 | 64.8% |
| **Total revenue and other income** | 9,506.7 | 6,155.8 | 3,350.9 | 54.4% |
| Total expenses | 6,989.8 | 4,717.7 | 2,272.1 | 48.2% |
| **Share of profits of associates and joint ventures** | 103.7 | 67.8 | 35.9 | 53.0% |
| **Profit before income tax** | 2,620.6 | 1,505.9 | 1,114.7 | 74.0% |
| Income tax expense | 667.9 | 387.4 | 280.5 | 72.4% |
| **Net profit for the year** | 1,952.6 | 1,118.5 | 834.2 | 74.6% |
| Attributable to: | | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | 1,952.6 | 1,118.5 | 834.2 | 74.6% |

**Revenue Breakdown**

In 2015, the Group's total income and other gains increased by 54.4% to RMB9,506.7 million as compared to 2014. Among others, Fee and commission income accounted for 69.3%, representing an increase of 1.8 percentage points as compared to 2014; interest income took up 10.7%, representing an increase of 3.4 percentage points as compared to 2014; investment income accounted for 19.5%, representing a decrease of 5.3 percentage points as compared to 2014. Breakdown of the Group's revenue for the last two years is listed as follows:

Unit: RMB in million

| Item | 2015 | 2014 | Change |
|---|---|---|---|
| Fee and commission income | 69.3% | 67.5% | 1.8% |
| Interest income | 10.7% | 7.3% | 3.4% |
| Investment income | 19.5% | 24.8% | (5.3%) |
| Other gains | 0.5% | 0.4% | 0.0% |
| **Total** | 100.0% | 100.0% | |

Benefiting from the active capital market environment, the Company's overall operations were in good condition and its revenue and profit both made a record high, and revenue from each business was relatively stable and balanced in 2015. Due to the active trading in 2015, the market trading volume exceeded that of 2014, and capital-based intermediary business had further developed as compared to 2014, resulting in the fee and commission income and interest income representing a higher percentage in total revenue.

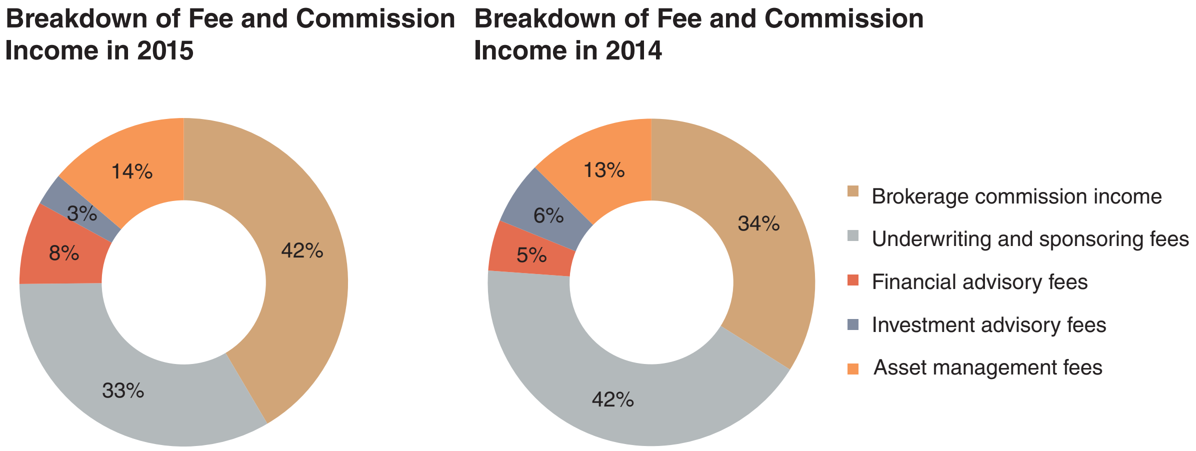
**Fee and Commission Income**

In 2015, the Group realized a net fee and commission income of RMB6,168.3 million, representing an increase of 57.2% as compared to 2014. Breakdown of the Group's fee and commission income in 2015 is listed as follows:

Unit: RMB in million

| Item | 2015 | 2014 | Change | % of change |
|---|---|---|---|---|
| **Fee and commission income** | | | | |
| Brokerage commission income | 2,734.1 | 1,408.9 | 1,325.2 | 94.1% |
| Underwriting and sponsoring fees | 2,196.6 | 1,753.1 | 443.5 | 25.3% |
| Financial advisory fees | 537.5 | 208.5 | 329.0 | 157.8% |
| Investment advisory fees | 210.7 | 258.2 | (47.5) | (18.4%) |
| Asset management fees | 908.9 | 523.2 | 385.7 | 73.7% |
| **Total fee and commission income** | 6,587.8 | 4,151.9 | 2,435.9 | 58.7% |
| **Fee and commission expense** | 419.6 | 227.8 | 191.8 | 84.2% |
| **Net fee and commission income** | 6,168.3 | 3,924.1 | 2,244.2 | 57.2% |

The charts below set forth the breakdown of the Group's fee and commission income in 2015 and 2014:




Brokerage commission income increased by RMB1,325.2 million or 94.1% as compared to 2014, mainly due to a significant growth of 244% in the daily average trading volume of the A-share market and an increase of 52% in the daily average trading volume of the H-share market in 2015 resulting in a significant increase in the Company's commission income from A-shares and H-shares trading. Meanwhile, the average securities brokerage commission rate of the Company's brokerage business was 0.071%, with the market premium remain the same as compared to 2014.

Underwriting and sponsoring fees increased by RMB443.5 million or 25.3% as compared to 2014, mainly due to an increase in the Company's business scale of A-share, H-share and bond offerings.

Financial advisory fees increased by RMB329.0 million or 157.8% as compared to 2014, mainly due to a revenue increase recognized from M&A completed in 2015.

Investment advisory fees decreased by RMB47.5 million or 18.4% as compared to 2014, primarily because more clients' assets were transferred from over-the-counter transactions into exchange-traded transactions due to the active secondary market.

Asset management fees increased by RMB385.7 million or 73.7% as compared to 2014, mainly due to an increase in the AUM of our asset management, mutual funds and private equity businesses and an increase in performance fees as a result of the strong market performance for this year.

**Interest Income**

In 2015, the Group incurred a net interest expense of RMB74.3 million, representing a decrease of 74.6% as compared to 2014. Breakdown of the Group's net interest expense in 2015 is listed as follows:

Unit: RMB in million

| Item | 2015 | 2014 | Change | % of change |
|---|---|---|---|---|
| **Interest income** | 1,020.5 | 449.8 | 570.7 | 126.9% |
| Interest income from financial institutions | 569.2 | 181.5 | 387.7 | 213.6% |
| Interest income from margin financing and securities lending | 381.0 | 181.1 | 199.9 | 110.4% |
| Interest income from financial assets held under resale agreements | 68.0 | 86.3 | (18.3) | (21.2%) |
| Others | 2.3 | 0.9 | 1.4 | 151.6% |
| **Interest expenses** | 1,094.8 | 742.1 | 352.7 | 47.5% |
| Interest expenses of accounts payable to brokerage clients | 172.6 | 43.0 | 129.6 | 301.5% |
| Interest expenses on financial assets sold under repurchase agreements | 345.5 | 294.1 | 51.4 | 17.5% |
| Interest expenses on placements from financial institutions | 137.7 | 79.0 | 58.7 | 74.4% |
| Interest expenses on debt instruments issued | 417.9 | 319.2 | 98.7 | 30.9% |
| Others | 21.1 | 6.8 | 14.3 | 211.7% |
| **Net interest expense** | (74.3) | (292.3) | 218.0 | (74.6%) |

Interest income from financial institutions increased by RMB387.7 million or 213.6% as compared to 2014, mainly due to an increase in the average balance of cash we held on behalf of our brokerage clients.

Interest income from margin financing and securities lending increased by RMB199.9 million or 110.4% as compared to 2014, mainly due to our clients' increased demand for margin financing and securities lending under the favorable domestic stock market conditions and an increase in the business scale of our margin financing and securities lending business as a result of our increased capital allocation to the margin financing and securities lending business.

Interest income from financial assets held under resale agreements decreased by RMB18.3 million or 21.2% as compared to 2014, mainly due to a decrease in interest rates.

Interest expense increased by RMB352.7 million or 47.5% as compared to 2014, mainly due to the increased deposits we held on behalf of our brokerage clients and our increased external financing. In 2015, the Group continued to expand its financing channels. The Group obtained capital resources by means of issuance of short-term commercial papers, beneficiary certificates, subordinated bonds and syndication loans, which resulted in high interest expenses.

**Investment Income**

In 2015, the Group recognized an investment income of RMB1,853.3 million, representing an increase of 21.4% as compared to 2014. Breakdown of the Group's investment income in 2015 is listed as follows:

Unit: RMB in million

| | 2015 | 2014 | Change | % of change |
|---|---|---|---|---|
| **Investment income** | | | | |
| Net gain from disposal of available-for-sale financial assets | 104.2 | 19.9 | 84.3 | 423.60% |
| Dividend income from available-for-sale financial assets | 12.9 | — | 12.9 | N/A |
| Net gains from financial instruments at fair value through profit or loss | | | | |
| — Equity investments | 2,356.5 | 568.9 | 1,787.6 | 314.2% |
| — Debt securities | 870.3 | 867.6 | 2.8 | 0.3% |
| — Funds and other investments | 99.3 | 100.7 | (1.4) | -1.4% |
| Net losses from derivative financial instruments | (1,589.9) | (30.2) | (1,559.7) | 5158.1% |
| **Total** | 1,853.3 | 1,526.8 | 326.6 | 21.4% |

Net gains from disposal of available-for-sale financial assets increased by RMB84.3 million or 423.6% as compared to 2014, mainly due to realized income arising from exit of some of our investments.

Dividend income from available-for-sale financial assets increased by RMB12.9 million as compared to 2014, mainly due to dividend income from the equity investments held by us.

Net gains from financial instruments at fair value through profit or loss were generated from the following categories of investments:

— Net gains generated from equity investments increased by RMB1,787.6 million as compared to 2014, mainly due to the increase in gains from our hedge position held for the total return swap business attributable to the surge in the stock prices in 2015, which was partially offset by the net losses from derivative financial instruments. The Group enters into total return swap agreements to meet its clients' needs whereby the clients assume the risk in the volatility in the fair value of the underlying assets while the Group receives fixed income under the total return swap agreements and holds a hedge position to mitigate market risk.

— Net gains from debt securities were substantially the same as in 2014, with the rate of increase in net gains significantly lower than the rate of increase in the position in debt securities between the year end of 2014 and 2015, mainly due to two reasons: the increase in our position in debt securities was a result of our gradual reallocation of the capital from the capital-intermediary business to debt securities in the fourth quarter of 2015, which means that the holding period of these newly-acquired debt securities was relatively short; and the rise in the market prices of the debt securities in 2014 was significantly higher than that in 2015, and as a result, the net gains from debt securities remained stable despite the increase in the holding position at the year end of 2015.

— Net gains from funds and other investments were substantially the same as in 2014, with the rate of increase in net gains significantly lower than the rate of increase in the position in funds and other investments at the year end of 2014 and 2015, mainly due to two reasons: the increase in our position in funds and other investments was a result from our gradual reallocation of the capital from capital-intermediary business to currency funds in the fourth quarter of 2015, which means that the holding period of these newly-acquired currency funds was relatively short; and the drop in the net gains of the currency funds in 2015 results in a lower gains from money market funds.

For detailed information of the financial assets at fair value through profit or loss held by the Group at the end of 2015, please refer to Investment - Financial assets at fair value through profit or loss.

Net losses from derivative financial instruments increased by RMB1,559.7 million as compared to 2014, mainly due to an increase in losses arising from the total return swap business. Such losses were offset by the gain from the hedge position. Taking into account the hedge position, the Group's exposure to the market risk and the impact on its profit or loss due to the volatility in the fair value of the underlying assets under the total return swap agreements is limited.

**Operating Expenses**

In 2015, the Group's operating expenses (excluding fee and commission expenses and interest expenses, see 1 below) amounted to RMB5,475.4 million, representing an increase of 46.1% as compared to 2014. Main compositions of the Group's operating expenses in 2015 are listed as follows:

Unit: RMB in million

| Item | 2015 | 2014 | Change | % of change |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Staff costs | 4,051.0 | 2,555.5 | 1,495.5 | 58.5% |
| Depreciation and amortization expenses | 51.1 | 59.9 | (8.8) | (14.7%) |
| Business tax and surcharges | 406.3 | 248.0 | 158.3 | 63.8% |
| Other operating expenses | 963.7 | 852.8 | 110.9 | 13.0% |
| Provision for impairment losses | 3.4 | 31.6 | (28.2) | (89.3%) |
| **Total** | 5,475.4 | 3,747.8 | 1,727.6 | 46.1% |

Staff costs increased by RMB1,495.5 million or 58.5% as compared to 2014, mainly due to an overall improvement in the Company's performance and an increase in staff salaries.

Depreciation and amortization expenses decreased by RMB8.8 million or 14.7% as compared to 2014, mainly due to the fact that some equipment and leasehold improvements had been fully depreciated or amortized.

Business tax and surcharges increased by RMB158.3 million or 63.8% as compared to 2014, mainly due to an increase in taxable income.

Other operating expenses increased by RMB110.9 million or 13.0% as compared to 2014, mainly due to increases in business development expenses in line with the increased business activities.

2. ***Segment Results***

We have five principal business segments: investment banking, equity sales and trading, FICC, wealth management and investment management. Others segment mainly comprises of other business departments and back offices.

Unit: RMB in million

| | 2015 | 2014 | Change | % of change |
|---|---|---|---|---|
| **Investment Banking** | | | | |
| **Segment revenue and other incomeFee and commission income** | 2,317.6 | 1,650.0 | 667.6 | 40.5% |
| Interest income | 2.5 | 18.2 | (15.7) | (86.5%) |
| Investment income | 11.3 | 14.4 | (3.1) | (21.8%) |
| Other income | 0.4 | 0.2 | 0.1 | 52.0% |
| Total | 2,331.7 | 1,682.9 | 648.8 | 38.6% |
| **Segment expenses** | (1,335.4) | (1,128.0) | (207.4) | 18.4% |
| **Profit/(loss) before income tax** | 996.3 | 554.9 | 441.4 | 79.5% |
| **Segment margin** (1) | 42.7% | 33.0% | 9.7% | |
| **Equity Sales and Trading** | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 2,125.5 | 1,289.9 | 835.7 | 64.8% |
| Interest income | 290.1 | 129.0 | 161.2 | 125.0% |
| Investment income | 219.0 | 243.1 | (24.1) | (9.9%) |
| Other income | 4.1 | 1.0 | 3.0 | 296.0% |
| Total | 2,638.7 | 1,663.0 | 975.7 | 58.7% |
| **Segment expenses** | (1,108.5) | (749.8) | (358.7) | 47.8% |
| **Profit/(loss) before income tax** | 1,530.2 | 913.2 | 617.0 | 67.6% |
| **Segment margin** (1) | 58.0% | 54.9% | 3.1% | |

| | 2015 | 2014 | Change | % of change |
|---|---|---|---|---|
| **FICC** | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 130.1 | 71.9 | 58.1 | 80.8% |
| Interest income | 40.5 | 22.6 | 17.9 | 78.9% |
| Investment income | 1,428.3 | 1,201.4 | 226.9 | 18.9% |
| Other income | 8.2 | 0.0 | 8.2 | N/A |
| Total | 1,607.0 | 1,295.9 | 311.1 | 24.0% |
| **Segment expenses** | (754.9) | (710.0) | (44.9) | 6.3% |
| **Profit/(loss) before income tax** | 852.1 | 585.9 | 266.2 | 45.4% |
| **Segment margin** (1) | 53.0% | 45.2% | 7.8% | |
| **Wealth Management** | | | | |
| Segment revenue and other income | | | | |
| Fee and commission income | 1,049.6 | 564.2 | 485.4 | 86.0% |
| Interest income | 542.0 | 239.3 | 302.7 | 126.5% |
| Investment income | 90.7 | 33.8 | 57.0 | 168.7% |
| Other income | 14.5 | 3.9 | 10.5 | 266.2% |
| Total | 1,696.8 | 841.3 | 855.5 | 101.7% |
| **Segment expenses** | (1,081.7) | (592.8) | (488.9) | 82.5% |
| **Profit/(loss) before income tax** | 615.1 | 248.4 | 366.7 | 147.6% |
| **Segment margin** (1) | 36.3% | 29.5% | 6.8% | |
| **Investment Management** | | | | |
| Segment revenue and other income | | | | |
| Fee and commission income | 964.9 | 575.3 | 389.5 | 67.7% |
| Interest income | 10.2 | 5.8 | 4.4 | 76.1% |
| Investment income | 97.9 | 27.3 | 70.6 | 258.3% |
| Other income | 10.1 | 2.4 | 7.7 | 321.5% |
| Total | 1,083.1 | 610.8 | 472.3 | 77.3% |
| **Segment expenses** | (723.4) | (514.5) | (208.9) | 40.6% |
| **Share of profits of associates and joint ventures** | 82.1 | 40.7 | 41.4 | 101.8% |
| **Profit/(loss) before income tax** | 441.8 | 137.0 | 304.8 | 222.5% |
| **Segment margin** (1) | 40.8% | 22.4% | 18.4% | |
| **Others** (2) | | | | |
| **Segment revenue and other income** | | | | |
| Fee and commission income | 0.2 | 0.5 | (0.3) | (69.2%) |
| Interest income | 135.3 | 34.9 | 100.4 | 287.5% |
| Investment income | 6.2 | 6.8 | (0.6) | (8.7%) |
| Other income | 7.8 | 19.7 | (11.9) | (60.5%) |
| Total | 149.4 | 61.9 | 87.5 | 141.4% |
| **Segment expenses** | (1,985.9) | (1,022.6) | (963.3) | 94.2% |
| **Share of profits of associates and joint ventures** | 21.6 | 27.1 | (5.5) | (20.3%) |
| **Profit/(loss) before income tax** | (1,814.9) | (933.6) | (881.3) | |

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

(2) The segment margin of "others" segment is not presented because this segment incurred loss before income tax in the relevant years

(vi) **Analysis of Items in Statement of Financial Position**

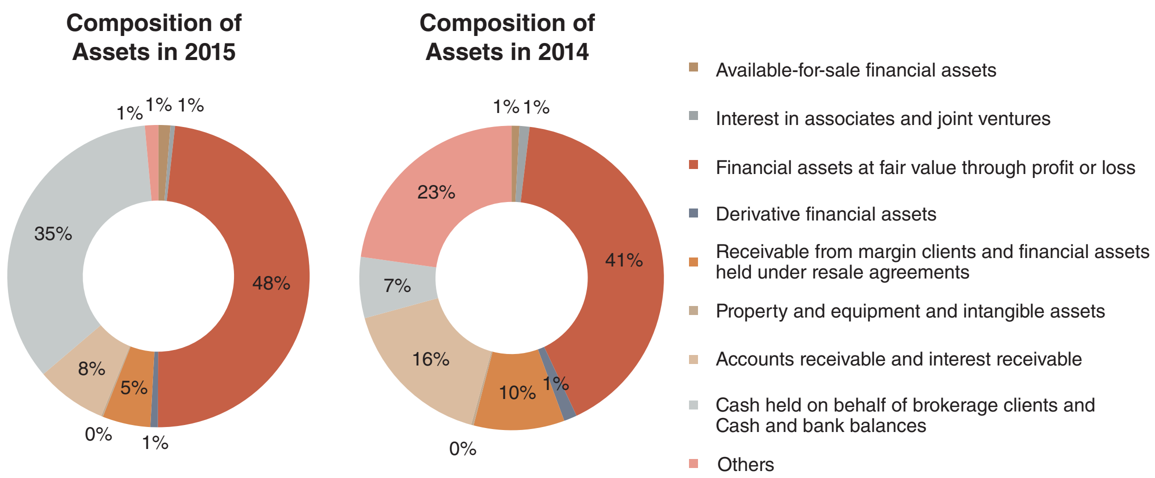
1. ***Items of Assets***

As of December 31, 2015, the total assets of the Group amounted to RMB94,108.8 million, representing an increase of 78.6% as compared to 2014. Excluding accounts payable to brokerage clients, the total assets of the Group as at December 31, 2015 amounted to RMB68,890.7 million, representing an increase of 83.0% as compared to 2014. Major changes in the Group's total assets are listed as follows:

Unit: RMB in million

| Item | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| Available-for-sale financial assets | 1,199.4 | 434.0 | 765.4 | 176.4% |
| Interest in associates and joint ventures | 452.6 | 565.4 | (112.8) | (19.9%) |
| Financial assets at fair value through profit or loss | 45,459.3 | 21,653.7 | 23,805.6 | 109.9% |
| Derivative financial assets | 736.2 | 732.8 | 3.4 | 0.5% |
| Receivable from margin clients and financial assets held under resale agreements | 4,853.0 | 5,079.9 | (226.9) | (4.5%) |
| Property and equipment and intangible assets | 167.8 | 137.8 | 30.0 | 21.7% |
| Accounts receivable and interest receivable | 7,152.4 | 8,677.7 | (1,525.3) | (17.6%) |
| Cash held on behalf of brokerage clients | 24,301.4 | 11,084.6 | 13,216.8 | 119.2% |
| Cash and bank balances | 8,434.1 | 3,418.3 | 5,015.7 | 146.7% |
| Others | 1,352.6 | 915.9 | 436.7 | 47.7% |
| **Total** | 94,108.8 | 52,700.1 | 41,408.7 | 78.6% |

The charts below set forth the composition of the Group's total assets as at the indicated dates:



**Investments**

The Group's investments primarily consist of available-for-sale financial assets, interest in associates and joint ventures, financial assets at fair value through profit or loss and derivative financial assets.

As of December 31, 2015, the total external investments of the Group amounted to RMB47,847.5 million, representing an increase of RMB24,461.6 million or 104.6% as compared to 2014. Total external investments accounted for 50.8% of total assets, representing an increase of 6.5 percentage points as compared to 2014, mainly due to the fact that capital-based intermediary business shrank as a result of a decreased financing demand in the market and thus the Company invested a portion of cash into bonds and monetary funds with low risk and strong liquidity, in order to improve capital utilization efficiency. Details of the Group's financial asset investments are as follows:

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| Available-for-sale financial assets | 1,199.4 | 434.0 | 765.4 | 176.4% |
| Interest in associates and joint ventures | 452.6 | 565.4 | (112.8) | (19.9%) |
| Financial assets at fair value through profit or loss | 45,459.3 | 21,653.7 | 23,805.6 | 109.9% |
| Derivative financial assets | 736.2 | 732.8 | 3.4 | 0.5% |
| **Total** | 47,847.5 | 23,385.9 | 24,461.6 | 104.6% |

**Available-for-sale Financial Assets**

As of December 31, 2015, the Group's available-for-sale financial assets represented a year-on-year increase of RMB765.4 million or 176.4%, accounting for 1.3% of the Group's total assets. The following table sets forth the composition of the Group's available-for-sale financial assets:

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| Equity investments | 1,198.9 | 413.1 | 785.7 | 190.2% |
| Funds and other investments | 0.5 | 20.8 | (20.3) | (97.7%) |
| **Total** | 1,199.4 | 434.0 | 765.4 | 176.4% |

**Interest in Associates and Joint Ventures**

As of December 31, 2015, the Group's interest in associates and joint ventures represented a year-on-year decrease of RMB112.8 million or 19.9%, accounting for 0.5% of the Group's total assets. The following table sets forth the composition of the Group's interest in associates and joint ventures:

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| Associates | 386.1 | 536.5 | (150.3) | (28.0%) |
| Joint ventures | 66.5 | 29.0 | 37.6 | 129.6% |
| **Total** | 452.6 | 565.4 | (112.8) | (19.9%) |

**Financial Assets at Fair Value through Profit or Loss**

As of December 31, 2015, the Group's financial assets at fair value through profit or loss represented a year-on-year increase of RMB23,805.6 million or 109.9%, accounting for 48.3% of the Group's total assets. The details of the investment categories are as follows:

Unit: RMB in million

| | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| **Equity investments** | | | | |
| — Hedge position held for total return swap | 8,557.3 | 9,361.5 | (804.2) | -8.6% |
| — Financial assets from consolidated structured entities | 3,179.0 | 77.9 | 3,101.1 | 3981.4% |
| — Equity investments held directly by the Group | 740.5 | 300.3 | 440.1 | 146.6% |
| Subtotal | 12,476.7 | 9,739.7 | 2,737.0 | 28.1% |
| **Debt securities** | | | | |
| — Financial assets from consolidated structured entities | 2,017.6 | 89.8 | 1,927.8 | 2147.1% |
| — Debt securities held directly by the Group | 18,562.2 | 10,755.8 | 7,806.3 | 72.6% |
| Subtotal | 20,579.8 | 10,845.6 | 9,734.2 | 89.8% |
| **Funds and other investments** | | | | |
| — Financial assets from consolidated structured entities | 1,057.9 | 438.1 | 619.7 | 141.4% |
| — Funds and other investments held directly by the Group | 11,345.0 | 630.3 | 10,714.7 | 1700.0% |
| Subtotal | 12,402.8 | 1,068.4 | 11,334.4 | 1060.9% |
| Total | 45,459.3 | 21,653.7 | 23,805.6 | 109.9 |

The financial assets at fair value through profit or loss held by the Group included RMB8,557.3 million of underlying assets of total return swap agreements which the Group had entered into with its clients, representing 18.8% in total financial assets at fair value through profit or loss. These underlying assets were held to hedge the market risk associated with the total return swap whereby the volatility in the underlying assets' fair value are assumed by the clients and has no material impact to the Group's profit or loss.

Besides the hedge position held for total return swap business mentioned above, the rest of the Group's financial assets at fair value through profit or loss include:

— RMB6,254.4 million in financial assets from consolidated structured entities which the Group sponsored and held interests in, accounting for 13.8% in total financial assets at fair value through profit or loss. The financial assets held by these consolidated structured entities include RMB3,179.0 million of equity investments, primarily listed stocks held in asset management accounts set up according to clients' requirements whereby the risk of fair value volatility is assumed by the clients based on mutual agreements; RMB2,017.6 million of debt securities all above investment grade; RMB1,057.9 million of funds and other investments, mainly quantitative hedging products. The carrying amount of the Group's interests in these structured entities are RMB1,316.8 million and the Group's maximum exposure to loss is limited to the carrying amount.

— RMB18,562.9 million of debt securities held directly by the Group, accounting for 40.8% in total financial assets at fair value through profit or loss, most of which are debt securities rated as investment grade or above and debt instruments issued by the MOF, the PBC or other policy banks in China.

— RMB11,345.0 million in investments in money market funds held directly by the Group, accounting for 25.0% in total financial assets at fair value through profit or loss, most of which are money market funds with high liquidity and low risks. The Group re-deployed its cash released from capital-intermediary business to money market funds to improve the short-term capital return after the market demand for funding had shrunk.

— RMB740.5 million in equity investments held directly by the Group, accounting for 1.6% in total financial assets at fair value through profit or loss, most of which are listed stocks held for our principal business or as marker maker in the New Third Board.

**Property and Equipment and Intangible Assets**

As of December 31, 2015, the Group's property and equipment and intangible assets amounted to RMB167.8 million, representing a year-on-year increase of 21.7%, primarily due to the merge of assets of CICC Futures after its acquisition as well as an increase of investment in fixed assets in support of business development. The following table sets forth the Group's property and equipment and intangible assets as of the dates indicated:

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| Property and equipment | 166.4 | 135.2 | 31.2 | 23.1% |
| Intangible assets | 1.4 | 2.6 | (1.2) | (46.6%) |
| **Total** | 167.8 | 137.8 | 30.0 | 21.7% |

**Cash and Bank Balances**

As of December 31, 2015, cash and bank balances represented a year-on-year increase of RMB5,015.7 million, mainly due to an increase in funds raised from IPO which will be deployed to business expansion gradually based on the use of proceeds.

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| Cash and bank balances | 8,434.1 | 3,418.3 | 5,015.7 | 146.7% |

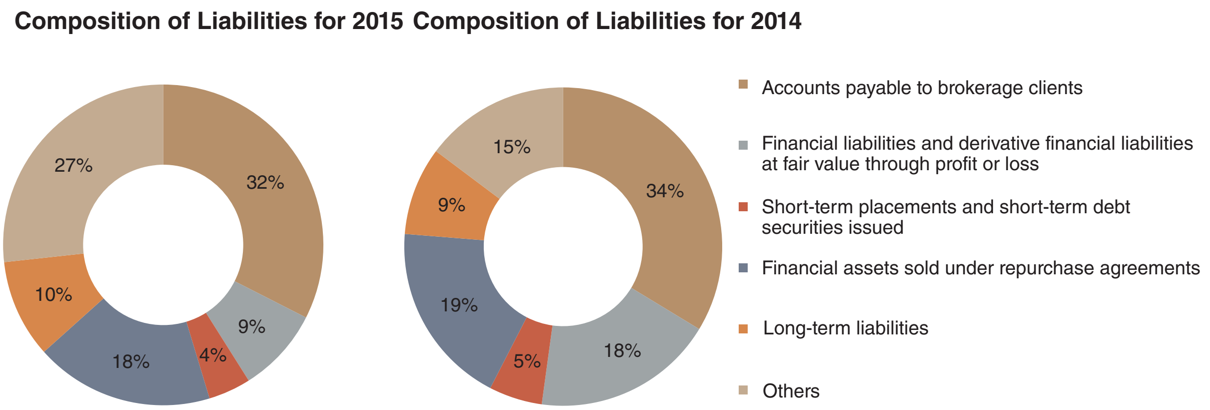
2. ***Items of Liabilities***

As of December 31, 2015, the Group's total liabilities amounted to RMB77,666.8 million, representing a year-on-year increase of RMB32,958.9 million or 73.7%. Excluding the effect of accounts payable to brokerage clients, the Group's total liabilities amounted to RMB52,448.7 million at the end of 2015, representing a year-on-year increase of 76.9%. In 2015, the Company made great efforts in developing capital-based intermediary business while gradually expanded its financing scale through various channels. The table below sets out the movements of the Group's total liabilities:

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Change | % of change |
|---|---|---|---|---|
| Accounts payable to brokerage clients | 25,218.1 | 15,054.3 | 10,163.8 | 67.5% |
| Financial liabilities at fair value through profit or loss and derivative financial liabilities | 6,655.3 | 8,263.7 | (1,608.4) | (19.5%) |
| Short-term placements from financial institutions and short-term debt securities issued | 3,336.8 | 2,429.6 | 907.2 | 37.3% |
| Financial assets sold under repurchase agreements | 14,013.7 | 8,350.5 | 5,663.3 | 67.8% |
| Long-term liabilities | 7,694.8 | 4,009.6 | 3,685.2 | 91.9% |
| Others | 20,748.0 | 6,600.2 | 14,147.8 | 214.4% |
| **Total** | 77,666.8 | 44,707.9 | 32,958.9 | 73.7% |

The following chart sets out the composition of the Group's total liabilities as of the dates indicated:



As of December 31, 2015, accounts payable to brokerage clients amounted to RMB25,218.1 million, representing a year-on-year increase of 67.5%, mainly due to an increase in both market trading volume and market volatility in 2015 compared to 2014.

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Increase or decrease | Percentage of movements |
|---|---|---|---|---|
| **Domestic** | | | | |
| Individual clients | 2,545.0 | 1,832.7 | 712.4 | 38.9% |
| Institutional/corporate clients | 22,673.0 | 13,221.6 | 9,451.4 | 71.5% |
| **Total** | 25,218.1 | 15,054.3 | 10,163.8 | 67.5% |

As of December 31, 2015, financial liabilities at fair value through profit or loss and derivative financial liabilities amounted to RMB6,655.3 million, representing a year-on-year decrease of 19.5%, mainly due to a decrease in financial liabilities resulting from the settlement of a portion of the trading positions.

As of December 31, 2015, financial assets sold under repurchase agreements amounted to RMB14,013.7 million, representing a year-on-year increase of 67.8%, mainly due to an increase in short-term financing for proprietary business to enhance return on proprietary investments.

As of December 31, 2015, short-term placements from financial institutions and short-term debt securities issued amounted to RMB3,336.8 million, which consisted of beneficiary certificates with a nominal value of RMB1,700.0 million and RMB1,636.8 million short-term placements, representing an increase of 37.3% as compared to 2014, mainly due to an increase in short-term debt financing to develop capital-based intermediary business.

As of December 31, 2015, the Group's outstanding long-term liabilities amounted to RMB7,694.8 million, which consisted of RMB5,000.0 million subordinated bonds, RMB1,071.0 million USD-denominated notes and RMB1,623.4 million syndication loan, representing an increase of RMB3,685.2 million as compared to 2014. The newly-added long-term debts included RMB2,000 million subordinated bonds issued on May 29, 2015 and RMB1,623.4 million syndication loan drawn down on July 17, 2015.

As of December 31, 2015, the Group's other liabilities amounted to RMB20,748.0 million, representing an increase of 214.4% as compared to last year, mainly due to short-term fluctuation of accounts payable relating to the trading activities.

(vii) **Items of Equity**

As of December 31, 2015, the Group's total equity amounted to RMB16,442.0 million, representing a year-on-year increase of 105.7%, primarily due to the enlarged equity as a result of the IPO and an increase in retained profits resulting from earnings for 2015. The table below sets forth the composition of the Group's equity as of the dates indicated:

Unit: RMB in million

| Items | December 31, 2015 | December 31, 2014 | Change | % of Change |
|---|---|---|---|---|
| Share capital | 2,306.7 | 1,667.5 | 639.2 | 38.3% |
| Capital reserve | 7,705.7 | 26.5 | 7,679.2 | 29,005.8% |
| Surplus reserve | 152.8 | 473.4 | (320.6) | (67.7%) |
| General reserve | 1,453.1 | 1,142.4 | 310.7 | 27.2% |
| Investment revaluation reserve | 71.5 | 24.2 | 47.3 | 195.1% |
| Foreign currency translation reserve | (298.2) | (447.7) | 149.5 | (33.4%) |
| Retained profits | 4,050.5 | 5,106.1 | (1,055.6) | (20.7%) |
| Other equity instruments | 1,000.0 | — | 1,000.0 | N/A |
| Total equity | 16,442.0 | 7,992.2 | 8,449.8 | 105.7% |

The Group issued the perpetual subordinated bonds with a principal amount of RMB1,000.0 million on May 29, 2015. The interest rate of the bonds resets every 5 years thereafter based on a benchmark rate and a predetermined spread. The Group does not have any contractual obligation to deliver cash or other financial assets to redeem the perpetual subordinated bonds. The redemption of the bonds is solely at the discretion of the Group.

(viii) **Contingent Liabilities**

The Group has no contingent liabilities as at December 31, 2015.

(ix) **Pledge of Assets of the Group**

The Group has no pledge of assets as at December 31, 2015.

(x) **Income Tax Policy**

In accordance with the EIT Law and the Provisions of Implementation for the EIT Law, the Company and our PRC subsidiaries are subject to an EIT tax rate of 25%. Our Hong Kong subsidiaries are subject to a tax rate of 16.5% on their assessable profit. Income tax computation and payment are governed by the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Collection of Consolidated Payments of EIT by the Enterprises with Trans-regional Operations (《國家税務總局關於印發<跨地區經營匯總納税企業所得税徵收管理辦法>的公告》) (Public Notice of the State Administration of Taxation [2012] No.57). During the year ended December 31, 2015, we had fulfilled all our tax obligations and did not have any unresolved tax disputes with the relevant tax authorities in China or other jurisdictions.

## II. Significant Investment and Financial Activities of the Company

### (i) Equity Investment

There was no significant equity investment in 2015.

### (ii) Equity Financing

The Company was successfully listed on the Hong Kong Stock Exchange on November 9, 2015, and had issued a total of 703,115,600 H Shares by November 18, 2015, the date of the completion of the exercise of the over-allotment option. Among the total shares issued, NSSF sold 63,919,600 H Shares, and the remaining 639,196,000 H Shares were new shares issued. The offer price was HKD10.28 per share. The actual amount of the net proceeds was HKD6,401 million.

### (iii) Debt Financing

As of December 31, 2015, the Group's outstanding debt financing instruments with the remaining period of over 1 year are set out below:

| Type | Tranche | Size of Issuance | Date of Issuance/ Date of Value | Maturity Date | Interest Rate | Remarks |
|---|---|---|---|---|---|---|
| Subordinated bonds .. | 13 subordinated bond | RMB 3,000 million | July 25, 2013 | July 25, 2019 | Bearing an interest rate of 6% per annum in the first three years; 9% from the fourth to sixth year | The Company has an option to redeem such subordinated bond on July 25, 2016 |
| Subordinated bonds .. | 15 subordinated bond | RMB 2,000 million | May 29, 2015 | May 29, 2021 | Bearing an interest rate of 5.25% per annum in the first three years; 8.25% from the fourth to sixth year | The Company has an option to redeem such subordinated bond on May 29, 2018 |

| Type | Tranche | Size of Issuance | Date of Issuance/ Date of Value | Maturity Date | Interest Rate | Remarks |
|---|---|---|---|---|---|---|
| Perpetual subordinated bonds .................. | 15 perpetual subordinated bonds | RMB 1,000 million | May 29, 2015 | — | Bearing an interest rate of 5.70% per annum in the first five years, and subject to reset every five years | As at the end of each five-year period, the Company has a right to extend the term of such perpetual subordinated bonds for another five-year period |
| Notes payable........... | USD-denominated notes issued by CICC Hong Kong | US$165 million | April 28, 2011 | April 28, 2021 | 6.375% | The issuer has an option to redeem such notes payable after April 28, 2016 |
| Syndication loan....... | Syndicated term loan facility of CICC Hong Kong | US$250 million | July 17, 2015 | May 19, 2018 | LIBOR plus 2.5% | The issuer can determine the interest period upon its drawdown and each subsequent borrower and has an option to early repay the loan wholly or partially with a prior notice no less than 30 calendar days |

In addition, in 2015, the Company completed 5 issuances of short-term commercial papers, with an aggregate principal amount of RMB4,100 million for the year; completed 19 issuances of beneficiary certificates, with an aggregate principal amount of RMB3,470 million for the year. As of December 31, 2015, the balance of beneficiary certificates payable of the Company amounted to RMB1,700 million. As of December 31, 2015, the balance of bank borrowings payable of CICC Hong Kong amounted to US$90.97 million.

## C. MANAGEMENT DISCUSSION AND ANALYSIS OF THE COMPANY FOR THE TWO YEARS ENDED DECEMBER 31, 2013 AND 2014

### Total Revenue and Other Income

Our total revenue and other income increased by 51.4% to RMB6,155.8 million in 2014 from RMB4,064.8 million in 2013.

#### *Fee and Commission Income*

The following table sets forth the breakdown of our fee and commission income for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Brokerage commission income | 1,287.9 | 1,408.9 |
| Underwriting and sponsoring fees | 817.0 | 1,753.1 |
| Financial advisory fees | 351.8 | 208.5 |
| Investment advisory fees | 161.3 | 258.2 |
| Asset management fees | 376.1 | 523.2 |
| **Total** | **2,994.2** | **4,151.9** |

Our fee and commission income increased by 38.7% to RMB4,151.9 million in 2014 from RMB2,994.2 million in 2013, primarily due to increases in underwriting and sponsoring fees, asset management fees, brokerage commission income and investment advisory fees. These increases were partially offset by a decrease in financial advisory fees.

Our underwriting and sponsoring fees increased by 114.6% to RMB1,753.1 million in 2014 from RMB817.0 million in 2013, primarily due to (i) increased underwriting and sponsoring fees from equity offering transactions as a result of the increases in the number of and the transaction value of equity financing transactions we underwrote in 2014, and (ii) increased underwriting and sponsoring fees from debt offering transactions, both of which reflected the favorable market conditions in 2014.

Our asset management fees increased by 39.1% to RMB523.2 million in 2014 from RMB376.1 million in 2013, primarily due to (i) an increase in our AUM in line with the growth in our asset management and mutual fund businesses, and (ii) an increase in our performance fees we received as a result of an overall increase in returns of our asset management products, which reflected the favorable performance of the domestic stock and bond markets in 2014.

Our brokerage commission income increased by 9.4% to RMB1,408.9 million in 2014 from RMB1,287.9 million in 2013, primarily due to increased trading turnover of stocks and funds, reflecting the active trading by clients in the domestic and Hong Kong stock markets in 2014, which was partially offset by slight decreases in our average securities brokerage commission rates in the PRC and Hong Kong. The trading turnover of stocks and funds by our brokerage clients in the PRC increased by 34.9% to RMB1,060.0 billion in 2014 from RMB785.5 billion in 2013 and the trading turnover by our brokerage clients in Hong Kong increased by 14.2% to HK$282.2 billion in 2014 from HK$247.1 billion in 2013. Our average securities brokerage commission rate in the PRC decreased to 0.092% in 2014 compared to 0.106% in 2013 and our average securities brokerage commission rate in Hong Kong decreased to 0.168% in 2014 compared to 0.188% in 2013.

Our investment advisory fees increased by 60.1% to RMB258.2 million in 2014 from RMB161.3 million in 2013, primarily due to growth in the investment advisory and referral services we provided to our clients.

Our financial advisory fees decreased by 40.7% to RMB208.5 million in 2014 from RMB351.8 million in 2013. The aggregate transaction amount of M&A transactions that we acted as financial advisor and were announced in 2014 was US$97.4 billion compared to an aggregate transaction amount of US$16.5 billion for the M&A transactions that we advised and were announced in 2013. The revenue on some M&A transactions which were announced in 2014 will be recognized in the following years.

***Interest Income***

The following table sets forth our interest income for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Interest income from financial institutions | 176.7 | 181.5 |
| Interest income from margin financing and securities lending | 89.5 | 181.1 |
| Interest income from financial assets held under resale agreements | 59.0 | 86.3 |
| Others | 0.1 | 0.9 |
| **Total** | **325.3** | **449.8** |

Our interest income increased by 38.3% to RMB449.8 million in 2014 from RMB325.3 million in 2013, primarily due to increases in our interest income from margin financing and securities lending and interest income from financial assets held under resale agreements.

Our interest income from margin financing and securities lending increased by 102.3% to RMB181.1 million in 2014 from RMB89.5 million in 2013, primarily due to our increased capital allocation to the margin financing and securities lending business to meet the market demand for such services. Our interest income from financial assets held under resale agreements increased by 46.3% to RMB86.3 million in 2014 from RMB59.0 million in 2013, primarily due to an increase in our short-term financing to clients through stock-based lending transactions.

***Investment Income***

The following table sets forth our investment income for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | **2013** | **2014** |
| | **(in millions of RMB)** | |
| Net gains from disposal of available-for-sale financial assets | 47.0 | 19.9 |
| Dividend income and interest income from available-for-sale financial assets | 1.2 | — |
| Net gains from financial instruments at fair value through profit or loss | 465.7 | 1,537.1 |
| Net gains/(losses) from derivative financial instruments | 193.5 | (30.2) |
| **Total** | **707.3** | **1,526.8** |

Our investment income increased by 115.9% to RMB1,526.8 million in 2014 from RMB707.3 million in 2013, primarily reflecting a RMB1,071.4 million increase in net gains from financial instruments at fair value through profit or loss, primarily attributable to the favorable performance of domestic stock and bond markets. The increase was partially offset by a RMB30.2 million net loss from derivative financial instruments in 2014 compared to a RMB193.5 million net gain from derivative financial instruments in 2013, primarily reflecting the price fluctuations of futures products which we held for our principal investment.

**Total Expenses**

The following table sets forth the breakdown of our total expenses for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Staff costs | 1,684.4 | 2,555.5 |
| Interest expenses | 644.4 | 742.1 |
| Fee and commission expenses | 168.3 | 227.8 |
| Depreciation and amortization expenses | 110.3 | 59.9 |
| Business tax and surcharges | 176.3 | 248.0 |
| Other operating expenses | 803.0 | 852.8 |
| Provision/(reversal) for impairment losses | 25.5 | 31.6 |
| **Total** | **3,612.2** | **4,717.7** |

Our total expenses increased by 30.6% to RMB4,717.7 million in 2014 from RMB3,612.2 million in 2013. Staff costs, interest expenses, fee and commission expenses and other operating expenses are the four principal components of our expenses which had important effects on our results of operations.

***Staff Costs***

The following table sets forth the breakdown of our staff costs for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Salaries, bonuses and allowances | 1,529.0 | 2,398.6 |
| Retirement scheme contributions(1) | 57.2 | 58.5 |
| Other social welfare | 56.4 | 58.7 |
| Other benefits(2) | 41.8 | 39.7 |
| **Total** | **1,684.4** | **2,555.5** |

(1) Represents our contribution to statutory employee retirement schemes based on specified percentages of the salaries and bonuses of our employees as specified by respective local government authorities.

(2) Consists primarily of our contribution to supplemental medical insurance for our employees.

Our staff costs increased by 51.7% to RMB2,555.5 million in 2014 from RMB1,684.4 million in 2013, primarily due to an increase in salaries, bonuses and allowances, which reflected an increase in salaries and bonuses for employees attributable to our increased revenue in 2014 and our commitment to attract and retain professional talents.

*Interest Expenses*

The following table sets forth the breakdown of our interest expenses for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Interest expenses of accounts payable to brokerage clients | 42.1 | 43.0 |
| Interest expenses on financial assets sold under repurchase agreements | 271.7 | 294.1 |
| Interest expenses on placements from financial institutions | 67.2 | 79.0 |
| Interest expenses on debt instruments issued[(1)] | 262.2 | 319.2 |
| Others | 1.1 | 6.8 |
| **Total** | **644.4** | **742.1** |

(1) Debt instruments we issued during the Track Record Period included subordinated bonds, notes, short-term commercial papers and beneficiary certificates.

Our interest expenses increased by 15.2% to RMB742.1 million in 2014 from RMB644.4 million in 2013, primarily due to increases in interest expenses on debt instruments we issued and financial assets sold under repurchase agreements.

Interest expenses on debt instruments we issued increased by 21.7% to RMB319.2 million in 2014 from RMB262.2 million in 2013, primarily due to an increase in the average outstanding balance of short-term commercial papers we issued in 2014.

Interest expenses on financial assets sold under repurchase agreements increased by 8.3% to RMB294.1 million in 2014 from RMB271.7 million in 2013, primarily due to our increased use of repurchase agreements to fund our principal investment.

### *Fee and Commission Expenses*

The following table sets forth the breakdown of our fee and commission expenses for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Brokerage expenses | 78.1 | 104.8 |
| Underwriting and sponsoring expenses | 90.2 | 68.8 |
| Other fee and commission expenses | — | 54.1 |
| **Total** | **168.3** | **227.8** |

Our fee and commission expenses increased by 35.4% to RMB227.8 million in 2014 from RMB168.3 million in 2013, primarily due to (i) other fee and commission expenses of RMB54.1 million in 2014 attributable to selling commission for certain asset management product, and (ii) an increase in brokerage expenses, reflecting the increased trading turnover by our brokerage clients. These increases were partially offset by a decrease in underwriting and sponsoring expenses attributable to decreased commission and expenses paid to third parties related to transaction execution.

### *Depreciation and Amortization Expenses*

The following table sets forth the breakdown of our depreciation and amortization expenses for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Depreciation of property and equipment | 97.4 | 57.7 |
| Amortization of intangible assets | 3.3 | 2.2 |
| Amortization of guarantee fees for subordinated bonds | 9.7 | — |
| **Total** | **110.3** | **59.9** |

Our depreciation and amortization expenses decreased by 45.7% to RMB59.9 million in 2014 from RMB110.3 million in 2013, primarily due to a decrease in depreciation of property and equipment and amortization of guarantee fees for subordinated bonds. Depreciation of property and equipment decreased by 40.8% to RMB57.7 million in 2014 from RMB97.4 million in 2013, primarily because some of our IT systems and leasehold improvement had been fully depreciated. We did not incur amortization of guarantee fees for subordinated bonds in 2014 whereas we had amortization of guarantee fees for subordinated bonds of RMB9.7 million in 2013.

***Other Operating Expenses***

The following table sets forth the breakdown of our other operating expenses for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | **2013** | **2014** |
| | (in millions of RMB) | |
| Operating lease charges in respect of buildings and equipment | 233.7 | 222.4 |
| Business development expenses | 243.6 | 279.1 |
| Information technology expenses | 91.2 | 95.5 |
| Traveling and transportation expenses | 63.4 | 76.1 |
| Professional service fees | 69.7 | 79.8 |
| Utilities and maintenance fees | 36.1 | 34.9 |
| Securities investor protection fund | 11.1 | 17.3 |
| Auditors' remuneration | 3.2 | 3.4 |
| Others | 51.0 | 44.4 |
| **Total** | **803.0** | **852.8** |

Our other operating expenses increased by 6.2% to RMB852.8 million in 2014 from RMB803.0 million in 2013, primarily due to (i) increases in business development expenses as well as traveling and transportation expenses, which reflected our continuous efforts to develop and promote our businesses, (ii) an increase in professional service fees, including legal fees and fees for recruiting services, and (iii) an increase in our contribution to securities investor protection funds primarily due to the increase in our revenues.

***Profit before Income Tax***

Our profit before income tax increased significantly to RMB1,505.9 million in 2014 from RMB501.5 million in 2013.

***Income Tax Expense***

The following table sets forth our income tax expense for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | **2013** | **2014** |
| | (in millions of RMB, except percentages) | |
| Profit before income tax | 501.5 | 1,505.9 |
| Income tax expense | (131.4) | (387.4) |
| Effective income tax rate | 26.2% | 25.7% |

Our income tax expense increased by 194.8% to RMB387.4 million in 2014 from RMB131.4 million in 2013, primarily due to an increase in our taxable income. Our effective income tax rate slightly decreased to 25.7% in 2014 compared to 26.2% in 2013.

**Profit for the Period and Net Margin**

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

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB, except percentages) | |
| **Operating profit** | **452.6** | **1,438.1** |
| Operating margin(1) | 11.1% | 23.4% |
| Adjusted operating margin(2) | 13.9% | 27.7% |
| **Profit for the year/period** | **370.1** | **1,118.5** |
| Net margin(3) | 9.1% | 18.2% |
| Adjusted net margin(4) | 11.4% | 21.6% |
| **Return on average equity(5)** | **5.5%** | **15.1%** |
| **Return on average total assets(6)** | **1.2%** | **2.6%** |

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

(2) Adjusted operating margin = (operating profit)/(total revenue and other income - fee and commission expenses - interest expenses). Adjusted operating margin is not a standard indicator under IFRS but is presented here because PRC securities companies present their operating revenues after deduction of fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin (in note 4 below) provide appropriate indicators of our results of operations that are more comparable to other PRC securities companies due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in the prospectus may not be comparable to other similarly titled indicators reported by other companies due to different calculation methods or assumptions.

(3) Calculated as dividing the profit for the year/period by total revenue and other income.

(4) Adjusted net margin = (profit for the year/period)/(total revenue and other income - fee and commission expenses - interest expenses). Adjusted net margin is not a standard indicator under IFRS but is presented here for the reasons stated in note 2 above.

(5) Calculated by dividing the profit attributable to equity holders/Shareholders of our Company by the average amount of total equity attributable to equity holders/Shareholders at the end of the previous period and the end of the current period, and annualizing the result.

(6) Calculated by dividing the profit attributable to equity holders/Shareholders of our Company by the average balance of total assets at the end of the previous period and the end of the current period, and annualizing the result.

Our profit for the year significantly increased to RMB1,118.5 million in 2014 from RMB370.1 million in 2013. Our net margin increased to 18.2% in 2014 from 9.1% in 2013. Our return on average equity increased to 15.1% in 2014 compared to 5.5% in 2013 and our return on average total assets increased to 2.6% in 2014 compared to 1.2% in 2013. All of these increases were primarily due to (i) an increase in our total revenue and other income attributable to the overall growth of our businesses and the strong performance of domestic securities markets in 2014, and (ii) our effective cost control measures, which resulted in a lower increase in total expenses than the increase in the total revenue and other income in 2014.

## SUMMARY SEGMENT RESULTS

The following table sets forth our segment revenue and other income, segment expenses and profit (loss) before income tax of each of our segments for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB, except percentages) | |
| **Investment Banking** | | |
| Segment revenue and other income: | | |
| Fee and commission income | 1,004.7 | 1,650.0 |
| Interest income | 0.0 | 18.2 |
| Investment income | 11.1 | 14.4 |
| Other income and gains | 0.2 | 0.2 |
| Total | 1,016.0 | 1,682.9 |
| Segment expenses | (719.8) | (1,128.0) |
| Profit/(loss) before income tax | 296.2 | 554.9 |
| Segment margin(1) | 29.2% | 33.0% |
| **Equity Sales and Trading** | | |
| Segment revenue and other income: | | |
| Fee and commission income | 1,081.8 | 1,289.9 |
| Interest income | 109.9 | 129.0 |
| Investment income | 15.2 | 243.1 |
| Other income and gains | 0.3 | 1.0 |
| Total | 1,207.3 | 1,663.0 |
| Segment expenses | (556.4) | (749.8) |
| Profit before income tax | 650.9 | 913.2 |
| Segment margin(1) | 53.9% | 54.9% |

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB, except percentages) | |
| **FICC** | | |
| Segment revenue and other income: | | |
| Fee and commission income | 65.7 | 71.9 |
| Interest income | 21.8 | 22.6 |
| Investment income | 613.2 | 1,201.4 |
| Other income and gains | 0.0 | 0.0 |
| Total | 700.7 | 1,295.9 |
| Segment expenses | (684.1) | (710.0) |
| Profit before income tax | 16.6 | 585.9 |
| Segment margin(1) | 2.4% | 45.2% |
| **Wealth Management** | | |
| Segment revenue and other income: | | |
| Fee and commission income | 450.0 | 564.2 |
| Interest income | 134.1 | 239.3 |
| Investment income | 14.1 | 33.8 |
| Other income and gains | 9.5 | 3.9 |
| Total | 607.7 | 841.3 |
| Segment expenses | (414.3) | (592.8) |
| Profit before income tax | 193.4 | 248.4 |
| Segment margin(1) | 31.8% | 29.5% |
| **Investment Management** | | |
| Segment revenue and other income: | | |
| Fee and commission income | 387.3 | 575.3 |
| Interest income | 2.5 | 5.8 |
| Investment income | 52.0 | 27.3 |
| Other income and gains | 3.5 | 2.4 |
| Total | 445.2 | 610.8 |
| Segment expenses | (295.5) | (514.5) |
| Share of profits of associates and joint ventures | 27.9 | 40.7 |
| Profit before income tax | 177.6 | 137.0 |
| Segment margin(1) | 39.9% | 22.4% |

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB, except percentages) | |
| **Others** (2) | | |
| Segment revenue and other income: | | |
| Fee and commission income | 4.7 | 0.5 |
| Interest income | 57.0 | 34.9 |
| Investment income | 1.7 | 6.8 |
| Other income and gains | 24.5 | 19.7 |
| Total | 87.9 | 61.9 |
| Segment expenses | (942.1) | (1,022.6) |
| Share of profits of associates and joint ventures | 21.0 | 27.1 |
| Loss before income tax | (833.2) | (933.6) |

(1) Segment margin = profit before income tax/segment revenue and other income.

(2) The segment margin of "others" segment is not presented because this segment incurred loss before income tax in the relevant years and periods.

**Investment Banking**

Segment revenue and other income from the investment banking business consist primarily of fee and commission income, including underwriting and sponsoring fees as well as financial advisory fees. Segment expenses consist primarily of (i) staff costs, (ii) fee and commission expenses associated with our underwriting activities, and (iii) other operating expenses.

Segment revenue and other income of the investment banking segment increased by 65.6% to RMB1,682.9 million in 2014 from RMB1,016.0 million in 2013, primarily due to the increases in the number and the transaction value of equity and debt offerings we underwrote in 2014, attributable to the pipeline deals we accumulated and the favorable market conditions in 2014.

Segment expenses of the investment banking segment increased by 56.7% to RMB1,128.0 million in 2014 from RMB719.8 million in 2013, primarily due to an increase in staff costs in line with the increased revenue from our investment banking business.

As a result, the segment operating profit of this segment increased by 87.3% to RMB554.9 million in 2014 from RMB296.2 million in 2013.

**Equity Sales and Trading**

Segment revenue and other income from the equity sales and trading segment consist primarily of (i) fee and commission income on our brokerage services for clients, (ii) investment income from financial instruments, and (iii) interest income from our margin financing and securities lending and resale transactions with clients, as well as interest income from deposits we hold on behalf of brokerage clients. Segment expenses consist primarily of (i) staff costs, (ii) interest expenses, (iii) fee and commission expenses on securities brokerage services, and (iv) other operating expenses.

Segment revenue and other income of the equity sales and trading segment increased by 37.7% to RMB1,663.0 million in 2014 from RMB1,207.3 million in 2013, primarily due to (i) a significant increase in investment income attributable to our increased net gains from total return swap transactions and structured products as a result of the growth in these businesses, and (ii) an increase in brokerage commission as a result of the increased trading turnover of our brokerage clients in 2014.

Segment expenses of the equity sales and trading segment increased by 34.7% to RMB749.8 million in 2014 from RMB556.4 million in 2013, primarily due to (i) an increase in staff costs in line with the increased revenue of this segment, and (ii) an increase in interest expenses incurred by this segment as a result of the growth of our capital-based intermediary business.

As a result, the segment operating profit of this segment increased by 40.3% to RMB913.2 million in 2014 from RMB650.9 million in 2013.

**FICC**

Segment revenue and other income from the FICC segment consist primarily of (i) investment income on our principal investment, and (ii) fee and commission income on our syndication and distribution of fixed-income products. Segment expenses consist primarily of (i) interest expenses, (ii) staff costs, and (iii) other operating expenses.

Segment revenue and other income of the FICC segment increased by 85.0% to RMB1,295.9 million in 2014 from RMB700.7 million in 2013, primarily due to the increase in investment income on securities we invested and held in 2014, reflecting the favorable domestic securities markets in the PRC in 2014.

Segment expenses of the FICC segment increased by 3.8% to RMB710.0 million in 2014 from RMB684.1 million in 2013, primarily due to increases in staff costs and business tax and surcharges in line with the increased revenue of this segment, which were partially offset by a decrease in interest expenses incurred by this segment, reflecting the decreased cost of funding in 2014 due to improved money market liquidity.

As a result, the segment operating profit of this segment significantly increased to RMB585.9 million in 2014 from RMB16.6 million in 2013.

**Wealth Management**

Segment revenue and other income from the wealth management business consist primarily of (i) fee and commission income on our brokerage services and investment advisory services for clients, and (ii) interest income from our capital-based intermediary businesses and interest income from deposits we hold on behalf of brokerage clients. Segment expenses consist primarily of (i) staff costs, (ii) interest expenses, and (iii) other operating expenses.

Segment revenue and other income of the wealth management segment increased by 38.4% to RMB841.3 million in 2014 from RMB607.7 million in 2013, primarily due to (i) an increase in brokerage commission attributable to the increased trading turnover of our brokerage clients in 2014, and (ii) an increase in interest income due to the growth in our capital-based intermediary business.

Segment expenses of the wealth management segment increased by 43.1% to RMB592.8 million in 2014 from RMB414.3 million in 2013, primarily due to an increase in interest expenses as a result of the growth of our capital-based intermediary business, and an increase in staff costs in line with the increased revenue of this segment.

As a result, the segment operating profit of this segment increased by 28.5% to RMB248.4 million in 2014 from RMB193.4 million in 2013.

**Investment Management**

Segment revenue and other income from the investment management business consist primarily of (i) management fees for our asset management and private equity businesses, and (ii) investment income on the asset management products and private equity portfolio in which we invest with our own funds. Segment expenses consist primarily of (i) staff costs, (ii) other operating expenses, and (iii) interest expenses. This segment received share of profits of associates and joint ventures of RMB27.9 million and RMB40.7 million in 2013 and 2014, respectively.

Segment revenue and other income of the investment management segment increased by 37.2% to RMB610.8 million in 2014 from RMB445.2 million in 2013, primarily due to our increased AUM and higher returns on our asset management products.

Segment expenses of the investment management segment increased by 74.1% to RMB514.5 million in 2014 from RMB295.5 million in 2013, primarily due to (i) an increase in staff costs which reflected the increased revenue of this segment and the increased number of employees as a result of establishment of our fund subsidiary in 2014, and (ii) the increased commissions paid to third parties for distributing our asset management products.

The segment operating profit of this segment decreased by 35.6% to RMB96.3 million in 2014 from RMB149.7 million in 2013. The segment margin decreased to 22.4% in 2014 from 39.9% in 2013, primarily reflecting (i) an increase in staff costs in line with the increased revenue of this segment, (ii) an increase in payments of selling commission for distributing our asset management products in 2014, which were partially offset by an increase of share of profits of associates and joint ventures from RMB27.9 million in 2013 to RMB40.7 million in 2014.

**Others**

Segment revenue and other income from others segment consist primarily of interest income from our own bank deposits and government grants. Segment expenses mainly include staff costs, the interest expenses on the debt securities we issued and other operating expenses. This segment received share of profits of associates and joint ventures of RMB21.0 million and RMB27.1 million in 2013 and 2014, respectively.

Segment revenue and other income of the others segment decreased by 29.6% to RMB61.9 million in 2014 from RMB87.9 million in 2013, primarily due to a decrease in interest income from our own bank deposits because we use our fund to support our capital-based intermediary businesses.

Segment expenses of the others segment slightly increased by 8.5% to RMB1,022.6 million in 2014 from RMB942.1 million in 2013, primarily due to an increase in staff costs in line with increased revenue of our Group in 2014.

As a result, the segment operating loss of this segment increased by 12.5% to RMB960.7 million in 2014 from RMB854.2 million in 2013.

## LIQUIDITY AND CAPITAL RESOURCES

We have in the past funded our working capital and other capital requirements primarily through cash flows from operating activities, issuances of long-term debt securities and short-term commercial papers and notes, placements from financial institutions (including bank loans borrowed by overseas subsidiaries) and repurchase transactions.

We adopt a centralized management of the liquidity and capital resources within our Group. We establish and maintain a variety of financing channels to the extent permitted by relevant regulations with the target to satisfy the capital requirements arising from operations and development of our various businesses under all kinds of economic and market circumstances.

We carry out liquidity management through monitoring the maturity date of our assets and liabilities. We have established dynamic warning mechanism based on daily cash flow forecast and stress tests on regulatory indicators to monitor and analyze various types of fund position and indicators for liquidity risk control. To manage our liquidity while improving yields on surplus cash, we seek to maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions and actively manage our liquid assets through money market and capital market operations by investing in liquid financial instruments with relatively low risk, such as fixed-income securities and financial assets held under resale agreements.

As of June 30, 2015, we had aggregate cash and cash equivalents of RMB6,065.1 million.

The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows and financial position.

**Cash Flows**

The following table sets forth a selected summary of our consolidated statements of cash flows for the periods indicated.

| | For the year ended December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Net cash generated from/(used in) operating activities | (2,539.5) | 1,042.1 |
| Net cash (used in)/generated from investing activities | 118.1 | (238.8) |
| Net cash (used in)/generated from financing activities | 1,474.7 | (427.5) |
| Net (decrease)/increase in cash and cash equivalents | (946.7) | 375.8 |
| Cash and cash equivalents at the beginning of the year/period | 4,003.7 | 2,972.8 |
| Effect of changes in foreign exchange rate | (84.3) | 3.2 |
| Cash and cash equivalents at the end of the year/period | 2,972.8 | 3,351.8 |

***Net Cash Generated from/(Used in) Operating Activities***

Our cash flows from operating activities consist primarily of cash generated from or paid in relation to our investment banking business, brokerage business and principal investment business. Net cash generated from/(used in) operating activities reflects (i) profit before tax adjusted for non-cash and non-operating items, such as interest expenses, depreciation and amortization expenses and fair value loss/(gain) on financial instruments at fair value through profit or loss, (ii) the effects of movements in working capital, such as increase or decrease in receivables, financial assets held under resale agreements, financial assets at fair value through profit or loss, cash at bank and clearing houses held on behalf of clients, trade payables to clients, other liabilities and financial assets sold under repurchase agreements, and (iii) other cash items such as net income tax paid.

Changes in cash held for brokerage clients and accounts payable to brokerage clients are reflected in the effects of movements in working capital. Clients' deposits fluctuate based on our clients' trading activities, market conditions and other external factors beyond our control. As a result, analyses for changes in cash held for brokerage clients and accounts payable to brokerage clients are not meaningful for discussion of cash flows of operating activities.

In 2014, we had net cash generated from operating activities of RMB1,042.1 million, primarily attributable to our profit before income tax of RMB1,505.9 million, partially offset by negative cash movements caused by changes in working capital. The negative cash movements primarily reflected (i) an increase of RMB2,203.0 million in other liabilities attributable to deposits from customers in connection with structured products and total return swaps and our placements from financial institutions to support our capital-based intermediary businesses, and (ii) an increase of RMB1,074.6 million in proceeds from financial assets sold under repurchase agreements attributable to our increased use of short-term financing to support our capital-based intermediary businesses. These increases were partially offset by (i) an increase of RMB4,908.2 million in accounts receivable, other receivables and prepayments attributable to the increased deposits with other securities firms and clearing houses for client trading activities, (ii) an increase of RMB1,360.5 million in our receivable from margin clients attributable to the growth of our capital-based intermediary businesses, and (iii) an increase of RMB1,203.0 million in financial assets held for trading due to our increased principal investment based on the market conditions and our increased position of reference stocks underlying the total return swap transactions with clients.

In 2013, we had net cash used in operating activities of RMB2,539.5 million primarily due to negative cash movements caused by changes in working capital, partially offset by our profit before income tax of RMB501.5 million and positive adjustments for non-cash and non-operating items. The negative cash movements primarily reflected (i) an increase of RMB1,866.7 million in financial assets held under resale agreements as a result of increased short-term financing that we provided our customers through resale transactions and our increased use of resale agreements to generate higher returns on our own funds based on our liquidity management strategy, (ii) an increase of RMB1,553.8 million in receivable from margin clients as a result of the growth of our capital-based intermediary businesses, and (iii) an increase of RMB1,477.9 million in accounts receivable, other receivables and prepayments as a result of our efforts to grow capital-based intermediary businesses, including the margin financing and securities lending as well as total return swap transactions. These increases were partially offset by (i) an increase of RMB1,499.4 million in other liabilities as a result of deposits from customers for total return swap transactions and our borrowings from China Securities Finance to support our margin financing and securities lending business, and (ii) an increase of RMB653.3 million in proceeds from financial assets sold under repurchase agreements.

***Net Cash (Used in)/Generated from Investing Activities***

Our cash outflows used in investing activities consist primarily of (i) our purchase of available-for-sale financial assets and our capital contribution to joint ventures and associates, and (ii) cash paid for acquisition of property, equipment and other assets. Our cash inflows from investing activities consist primarily of (i) cash received from the disposal of, or distribution from, available-for-sale financial assets, (ii) interest and dividend received on investments, and (iii) proceeds from disposal of property and equipment.

In 2014, our net cash used in investing activities was RMB238.8 million, primarily due to (i) RMB277.4 million paid for acquisition of available-for-sale financial assets mainly attributable to our increased investments in connection with private equity business and our investments in joint ventures, and (ii) RMB62.9 million paid for acquisitions of equipment and other assets to support the growth of our business, which were partially offset by RMB82.2 million proceeds received from sale of investments.

In 2013, our net cash generated from investing activities was RMB118.1 million, primarily due to RMB173.0 million proceeds received from sale of investments and RMB30.8 million dividend received from investments, which were partially offset by (i) RMB69.2 million paid for acquisition of available-for-sale financial assets and equity interests for long-term investment purposes, and (ii) RMB16.9 million paid for acquisition of property, equipment and other assets.

***Net Cash (Used in)/Generated from Financing Activities***

Our cash outflows used in financing activities consist primarily of (i) cash repayments of debt securities we issued, and (ii) cash paid for interest and profits distribution. Our cash inflows from financing activities consist primarily of (i) proceeds received from issuing of debt securities, and (ii) other cash received from financing activities.

In 2014, our net cash used in financing activities was RMB427.5 million, primarily due to (i) repayments of short-term commercial papers in the aggregate amount of RMB6,500.0 million, and (ii) RMB324.1 million paid for interest or profits distribution, partially offset by (i) proceeds from issuing short-term commercial papers in the aggregate amount of RMB6,300.0 million and (ii) RMB100.0 million received from our issuance of beneficiary certificates.

In 2013, our net cash generated from financing activities was RMB1,474.7 million, primarily due to proceeds of RMB6,000.0 million from issuance of subordinated bonds with a nominal value of RMB3,000.0 million and issuance of short-term commercial papers in the aggregate amount of RMB3,000.0 million, which were partially offset by (i) repayment of short-term commercial papers in the amount of RMB2,000.0 million and repayments of subordinated bonds with a nominal value of RMB2,300.0 million, and (ii) RMB231.5 million paid for interest on our subordinated bonds and short-term commercial papers that we issued and notes issued by CICC Hong Kong.

**Assets and Liabilities**

To ensure appropriate cash liquidity management and capital allocation, we monitor the scale and composition of our assets and liabilities and seek to maintain high liquidity. Given the highly liquid nature of our business, most of our assets and liabilities consist of current assets and liabilities.

*Current Assets and Liabilities*

The following table sets forth a summary of our current assets and liabilities as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| **Current assets** | | |
| Accounts receivable | 3,443.5 | 8,335.7 |
| Receivable from margin clients | 2,097.5 | 3,458.0 |
| Available-for-sale financial assets | 31.0 | 45.5 |
| Financial assets at fair value through profit or loss | 12,951.7 | 21,653.7 |
| Derivative financial assets | 1,358.0 | 732.8 |
| Financial assets held under resale agreements | 2,499.0 | 1,621.8 |
| Interest receivable | 307.3 | 342.0 |
| Cash held on behalf of brokerage clients | 5,235.5 | 11,084.6 |
| Bank balances and cash | 3,096.1 | 3,418.3 |
| Other current assets | 44.1 | 48.6 |
| **Total current assets** | **31,063.9** | **50,741.0** |
| **Current liabilities** | | |
| Financial liabilities at fair value through profit or loss | 788.3 | 7,525.9 |
| Derivative financial liabilities | 1,337.9 | 737.8 |
| Accounts payable to brokerage clients | 5,706.2 | 15,054.3 |
| Placements from financial institutions | 526.3 | 1,529.6 |
| Short-term debt securities issued | 1,000.0 | 900.0 |
| Financial assets sold under repurchase agreements | 7,275.8 | 8,350.5 |
| Employee benefits payable | 2,059.7 | 2,142.1 |
| Income tax payable | 28.0 | 119.0 |
| Long-term debt securities issued due within one year | — | — |
| Other current liabilities | 2,997.2 | 4,028.1 |
| **Total current liabilities** | **21,719.4** | **40,387.1** |
| **Net current assets** | **9,344.5** | **10,353.9** |

Our current assets consist primarily of (i) financial assets at fair value through profit or loss, (ii) cash held on behalf of brokerage clients and our own cash and bank balances, (iii) accounts receivable, (iv) receivable from margin clients, and (v) financial assets held under resale agreements. Our current liabilities consist primarily of (i) accounts payable to brokerage clients, (ii) financial assets sold under repurchase agreements, (iii) financial liabilities at fair value through profit or loss, (iv) employee benefits payable, and (v) placements from financial institutions.

As of December 31, 2013 and 2014, accounts receivable represented 11.1% and 16.4% of our total current assets. We periodically review our accounts receivable to determine whether there is any evidence of impairment based on which we should make impairment provision. See "—Significant Accounting Policies and Estimates—Significant Accounting Estimates and Judgments—Impairment of Receivables." For aging analysis of our accounts receivable, see Note 30 of the Accountants' Report in Appendix I to the prospectus.

We include various clients' deposits as current assets, including cash held on behalf of brokerage clients. We include accounts payable to brokerage clients as current liabilities. Clients' deposits fluctuate based on our clients' trading activities, market conditions and other external factors beyond our control. As a result, clients' deposits in our brokerage business are not a meaningful indicator of our financial condition or results of operations. See "—Adjusted Current Assets and Liabilities" below for information on our assets and liabilities excluding clients' deposits in our brokerage business.

Our net current assets remained positive in 2013 and 2014.

As of December 31, 2014, our net current assets increased by 10.8% to RMB10,353.9 million from RMB9,344.5 million as of December 31, 2013.

Our current assets increased by 63.3% to RMB50,741.0 million as of December 31, 2014 from RMB31,063.9 million as of December 31, 2013, primarily due to (i) an increase of RMB8,702.0 million in financial assets at fair value through profit or loss attributable to our increased position of reference stocks underlying our total return swap transactions with clients, (ii) an increase of RMB4,892.2 million in accounts receivable primarily related to brokerage trading attributable to active trading of our brokerage clients, and (iii) an increase of RMB1,360.5 million in receivable from margin clients attributable to the growth in margin financing and securities lending business.

Our current liabilities increased by 85.9% to RMB40,387.1 million as of December 31, 2014 from RMB21,719.4 million as of December 31, 2013. The increase in our current liabilities was primarily due to (i) an increase of RMB6,737.6 million in financial liabilities at fair value through profit or loss primarily attributable to payables to the counterparties in connection with our total return swaps and structured products and trading gains or losses on such businesses, (ii) an increase of RMB1,074.7 million in financial assets sold under repurchase agreements primarily due to our increased use of short-term financing to support our capital-based intermediary businesses, (iii) an increase of RMB1,003.3 million in placements from financial institutions primarily due to our increased placements from China Securities Finance to support the growth of our margin financing and securities lending business and the increased placements from banks borrowed by our overseas subsidiaries based on their liquidity needs, and (iv) an increase of RMB1,030.9 million in other liabilities which primarily reflected changes in accounts payable to clients and counterparties in connection with various transactions and increases in taxes payable.

*Adjusted Current Assets and Liabilities*

Client deposits held by us fluctuate based on our clients' trading activities, market conditions and other external factors that are beyond our control. We have adjusted our assets and liabilities in the following presentation and discussion to exclude the effect of cash held on behalf of clients and accounts payable to brokerage clients. The following table sets forth our adjusted current assets and liabilities as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Adjusted current assets[1] | 25,357.7 | 35,686.7 |
| Adjusted current liabilities[2] | 16,013.2 | 25,332.8 |
| Adjusted current ratio[3] | 1.58 | 1.41 |

(1) Represents total current assets less accounts payable to brokerage clients.

(2) Represents total current liabilities less accounts payable to brokerage clients.

(3) Calculated by dividing the adjusted current assets by the adjusted current liabilities.

*Non-current Assets and Liabilities*

The following table sets forth a summary of our non-current assets and liabilities as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| **Non-current assets** | | |
| Property and equipment | 136.3 | 135.2 |
| Intangible assets | 4.9 | 2.6 |
| Interest in associates and joint ventures | 397.5 | 565.4 |
| Available-for-sale financial assets | 317.0 | 388.5 |
| Refundable deposits | 220.2 | 325.0 |
| Deferred tax assets | 636.1 | 484.3 |
| Other non-current assets | 58.8 | 58.1 |
| **Total non-current assets** | **1,770.7** | **1,959.1** |
| **Non-current liabilities** | | |
| Non-current employee benefits payable | 218.2 | 269.2 |
| Long-term debt securities issued | 4,006.0 | 4,009.6 |
| Deferred tax liabilities | 11.6 | 28.9 |
| Other non-current liabilities | 12.5 | 13.0 |
| **Total non-current liabilities** | **4,248.4** | **4,320.7** |

Our non-current assets primarily consist of (i) interest in associates and joint ventures, (ii) deferred tax assets, (iii) available-for-sale financial assets, (iv) refundable deposits, and (v) property and equipment. Our interest in associates and joint ventures consist primarily of our equity interests in the entities over which we have significant influence or joint control. Our available-for-sale financial assets consist primarily of equity investments that we made in our private equity investment business. Our refundable deposits consist primarily of the amount we are required to deposit with various exchanges and clearing houses as collateral for trading. Our property and equipment consist primarily of our office equipment, furniture and fixtures, motor vehicles and leasehold improvements.

Our non-current assets increased by 10.6% to RMB1,959.1 million as of December 31, 2014 from RMB1,770.7 million as of December 31, 2013, primarily due to (i) an increase in interest in associates and joint ventures attributable to our new investments and the appreciation of our investments in associates and joint venture entities, (ii) an increase in refundable deposits attributable to our increased trading volume, and (iii) an increase in available-for-sale financial assets attributable to the increased equity investments in private equity funds, which were partially offset by a decrease in deferred tax assets.

Our non-current liabilities consist primarily of long-term debt securities issued and non-current employee benefits payable. Our non-current liabilities remained stable, amounting to RMB4,320.7 million and RMB4,248.4 million as of December 31, 2014 and 2013, respectively.

## CAPITAL EXPENDITURES

Our capital expenditures consist primarily of expenditures for the purchase of office equipment and leasehold improvement. Our capital expenditures amounted to RMB20.9 million and RMB60.8 million in 2013 and 2014, respectively.

## COMMITMENTS AND CONTINGENT LIABILITIES

### Capital Commitments

The following table sets forth our capital commitments as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | **2013** | **2014** |
| | **(in millions of RMB)** | |
| Contracted but not provided for | 265.1 | 220.1 |

Our capital commitments were made primarily to make capital contribution to private equity funds, and as we grow, we expect to continue to incur additional capital commitments to support our business expansion.

### Operating Lease Commitments

We lease certain of our office property from third parties under non-cancellable operating leases. The following table sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated.

| | As of December 31, | |
|---|---|---|
| | 2013 | 2014 |
| | (in millions of RMB) | |
| Within 1 year (inclusive) | 196.3 | 196.7 |
| After 1 year but within 2 years (inclusive) | 162.7 | 155.8 |
| After 2 years but within 3 years (inclusive) | 117.0 | 86.7 |
| After 3 years | 146.3 | 140.2 |
| **Total** | **622.3** | **579.4** |

### Contingent Liabilities

As of August 31, 2015, there was no material legal, arbitration or administrative proceedings that, if adversely determined, we expect would materially and adversely affect our financial position and results of operations.

## OFF-BALANCE SHEET ARRANGEMENTS

As of August 31, 2015, we did not have any outstanding off-balance sheet guarantees.

## WORKING CAPITAL

Taking into account the financial resources available to us, including our existing cash and cash equivalents, cash flows from operations and net proceeds from this Global Offering, our Directors believe that we have sufficient working capital for at least the next 12 months from the date of the prospectus.

## RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 52 of our historical financial information in the Accountants' Report in Appendix I to the prospectus were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

## CAPITAL ADEQUACY AND RISK CONTROL INDICATORS

Pursuant to the CSRC's Administrative Measures for Risk Control Indicators of Securities Companies, or the Risk Control Indicators Measures, we need to comply with statutory Net Capital requirements and other regulatory standards for capital adequacy. Our capital management objective is to meet legal and regulatory requirements while maintaining adequate capital and maximizing returns. We conduct forecast, planning and management of our regulatory capital. We have set up dynamic alarm mechanism on the Net Capital, the liquidity coverage ratio and the net stable funding ratio to monitor and analyze various capital resources and risk control indicators.

Our Net Capital and key regulatory risk indicators of our Company prepared in accordance with the PRC GAAP as of the date indicated are as follows.

| | As of December 31, | | | Minimum/ |
|---|---|---|---|---|
| | 2013 | 2014 | Warning level(1) | Maximum level |
| Net Capital(2) (in millions of RMB) ...... | 4,326.9 | 4,540.6 | — | — |
| Net Capital/total risk capital reserves(3). | 642.8% | 551.7% | ≥120.0% | ≥100.0% |
| Net Capital/net assets ........................... | 83.3% | 78.2% | ≥48.0% | ≥40.0% |
| Net Capital/total liabilities(4) ................. | 29.2% | 27.1% | ≥9.6% | ≥8.0% |
| Net assets/total liabilities ..................... | 35.1% | 34.7% | ≥24.0% | ≥20.0% |
| Value of equity securities and derivatives held/Net Capital .............. | 27.4% | 30.3% | ≤80.0% | ≤100.0% |
| Value of fixed-income securities held/Net Capital ................................ | 254.4% | 210.1% | ≤400.0% | ≤500.0% |
| Liquidity coverage ratio(5) .................... | N.A. | 356.4% | ≥120.0%(7) | ≥100.0% |
| Net stable funding ratio(6) .................... | N.A. | 127.4% | ≥120.0%(7) | ≥100.0% |

(1) The warning level is set by the CSRC according to the Risk Control Indicator Measures. If an indicator is required to stay above a minimum level, the warning level is 120% of the minimum requirement, and if an indicator is required to stay below a maximum level, the warning level is 80% of the maximum requirement.

(2) Net Capital equals net assets minus risk adjustments of financial assets, other assets and contingent liabilities as well as other adjustments determined or authorized by the CSRC.

(3) Risk capital reserves are reserves required by the CSRC to cover losses that securities firms may incur in their ordinary course of business. Such reserves are calculated based on the scale of business, the number of securities branches and the previous year's operating expenses.

(4) For purpose of calculating the risk control indicators, the accounts payable to brokerage clients are deducted from total liabilities.

(5) Liquidity coverage ratio = high quality liquid assets/total net cash outflows over the next 30 days × 100%. The calculation of liquidity coverage ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Companies (《證券公司流動性風險管理指引》) issued by the SAC effective on March 1, 2014. The high quality liquid assets refers to assets which can be readily converted into cash at small or no loss of value in the financial market under a stress scenario. The total net cash outflows over the next 30 days equals total expected cash outflows minus the total expected cash inflows for the subsequent 30 days.

(6) Net stable funding ratio = available amount of stable funding/required amount of stable funding × 100%. The calculation of net stable funding ratio is set by the Guidelines for the Management of Liquidity Risk of Securities Companies. The available amount of stable funding is defined as the equity and liabilities which provide stable sources of funds over a one-year period under a continued stress scenario. The required amount of stable funding is calculated as the sum of the value of assets or off-balance sheet exposures of a securities firm, multiplied by the respective factors.

(7) The warning level became effective since June 30, 2015.

In addition, we are required to comply with certain risk indicator requirements to engage in various businesses, such as margin financing and securities lending, principal investment, asset management, direct investment and futures brokerage. As of December 31, 2013 and 2014, we were in compliance with all of the CSRC's capital adequacy and risk control indicator requirements.

*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's reporting accountant, KPMG, Certified Public Accountants, Hong Kong.*

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

5 December 2016

The Directors

China International Capital Corporation Limited

Dear Sirs,

**INTRODUCTION**

We set out below our report on the consolidated financial information relating to China Investment Securities Corporation Limited ("CISC") and its subsidiaries (together the "CISC Group") comprising the consolidated statements of financial position of the CISC Group as at 31 December 2013, 2014, 2015 and 30 June 2016 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the CISC Group, for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the circular of China International Capital Corporation Limited (the "Company") dated 5 December 2016 (the "Circular") in connection with the proposed acquisition of CISC.

CISC was established on 27 September 2005 as a limited liability company with the approval of China Securities Regulatory Commission (the "CSRC").

All subsidiaries of CISC have adopted 31 December as their financial year end date. The statutory financial statements of CISC were audited by BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)) for the year ended 31 December 2013, and were audited by Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)) for the years ended 31 December 2014 and 2015. Details of CISC's principal subsidiaries and the names of their respective auditors are set out in Note 23 of section B. The statutory financial statements of these companies were prepared in accordance with the "Accounting Standards for Business Enterprises" issued by the Ministry of Finance (the "MOF") of the People's Republic of China (the "PRC") and other relevant regulations in the PRC (collectively known as the "PRC GAAP") (the "PRC Accounting Standard Financial Statements") or the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

The directors of CISC have prepared the consolidated financial statements of the CISC Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 were audited by KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

**DIRECTORS' RESPONSIBILITY**

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs and the applicable disclosure provisions of the Listing Rules.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of CISC, its subsidiaries or the CISC Group in respect of any period subsequent to 30 June 2016.

**OPINION**

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the CISC Group as at 31 December 2013, 2014, 2015 and 30 June 2016 and of the CISC Group's financial performance and cash flows for the Relevant Periods then ended.

**CORRESPONDING FINANCIAL INFORMATION**

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the CISC Group comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2015, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

## A CONSOLIDATED FINANCIAL INFORMATION OF THE CISC GROUP

### I Consolidated statements of profit or loss and other comprehensive income

*(Expressed in Renminbi ("RMB"), unless otherwise stated)*

| | Note | Year ended 31 December 2013 | Year ended 31 December 2014 | Year ended 31 December 2015 | Six months ended 30 June 2015 | Six months ended 30 June 2016 |
|---|---|---|---|---|---|---|
| | | | | | Unaudited | |
| Revenue | | | | | | |
| Fee and commission income | 7 | 2,496,146,507 | 3,372,960,733 | 8,205,941,464 | 4,839,861,785 | 1,975,699,199 |
| Interest income | 8 | 966,307,918 | 1,554,099,429 | 3,778,438,498 | 1,935,247,587 | 1,422,587,357 |
| Investment income | 9 | 182,187,733 | 195,023,497 | 483,184,561 | 348,100,738 | 68,263,713 |
| Total revenue | | 3,644,642,158 | 5,122,083,659 | 12,467,564,523 | 7,123,210,110 | 3,466,550,269 |
| Other income and gains | 10 | 18,651,643 | 27,376,987 | 14,321,529 | 8,342,737 | 8,361,760 |
| Total revenue and other income | | 3,663,293,801 | 5,149,460,646 | 12,481,886,052 | 7,131,552,847 | 3,474,912,029 |
| Fee and commission expenses | 11 | 335,070,937 | 518,882,694 | 1,450,742,227 | 841,721,516 | 396,238,314 |
| Interest expenses | 12 | 261,421,685 | 689,543,847 | 2,308,056,824 | 1,157,947,873 | 879,129,540 |
| Staff costs | 13 | 1,091,821,194 | 1,239,182,661 | 2,388,376,670 | 1,100,268,444 | 682,210,669 |
| Depreciation and amortization expenses | 16 | 113,030,375 | 115,281,296 | 118,445,459 | 59,250,103 | 60,846,321 |
| Business tax and surcharges | | 163,223,617 | 226,768,944 | 552,946,453 | 321,505,361 | 110,194,764 |
| Other operating expenses | 17 | 668,344,449 | 670,027,502 | 769,180,914 | 368,265,867 | 292,122,209 |
| (Reversal of)/provision for impairment losses | 18 | (8,581,095) | 1,835,912 | 9,310,829 | (157,939) | (485,445) |
| Total expenses | | 2,624,331,162 | 3,461,522,856 | 7,597,059,376 | 3,848,801,225 | 2,420,256,372 |
| Operating profit | | 1,038,962,639 | 1,687,937,790 | 4,884,826,676 | 3,282,751,622 | 1,054,655,657 |
| Share of (losses)/profits of associates | | (998,815) | (1,302,425) | 758,342 | (484,757) | (1,635,391) |
| Profit before income tax | | 1,037,963,824 | 1,686,635,365 | 4,885,585,018 | 3,282,266,865 | 1,053,020,266 |
| Less: Income tax expense | 19 | 278,326,736 | 440,146,322 | 1,240,180,492 | 824,345,188 | 268,085,480 |
| Profit for the year/period | | 759,637,088 | 1,246,489,043 | 3,645,404,526 | 2,457,921,677 | 784,934,786 |
| Attributable to: | | | | | | |
| Owners of CISC | 20 | 756,680,904 | 1,243,921,070 | 3,639,377,462 | 2,453,765,811 | 783,328,201 |
| Non-controlling interests | | 2,956,184 | 2,567,973 | 6,027,064 | 4,155,866 | 1,606,585 |
| Profit for the year/period | | 759,637,088 | 1,246,489,043 | 3,645,404,526 | 2,457,921,677 | 784,934,786 |

| | Note | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | | Unaudited | |
| Other comprehensive income for the year/period | | | | | | |
| Items that may be reclassified to profit or loss in subsequent periods: | | | | | | |
| Available-for-sale financial assets: | | (2,753,777) | 46,636,719 | 200,525,323 | 264,367,983 | (34,916,098) |
| - Changes in fair value | | (3,766,065) | 45,099,259 | 213,914,439 | 342,196,933 | (27,116,600) |
| - Reclassified to profit or loss as investment income | | (281,759) | 15,836,735 | 53,452,658 | 10,293,711 | (19,438,198) |
| - Reclassified to profit or loss as impairment losses | | 376,121 | 1,246,298 | — | — | — |
| - Income tax effect | | 917,926 | (15,545,573) | (66,841,774) | (88,122,661) | 11,638,700 |
| Interest in associates: | | — | 2,887,164 | 12,658,133 | 9,871,375 | (13,520,095) |
| - Share of other comprehensive income | | — | 3,849,552 | 16,877,511 | 13,161,834 | (18,026,793) |
| - Income tax effect | | — | (962,388) | (4,219,378) | (3,290,459) | 4,506,698 |
| Exchange differences on translation of financial statements of overseas subsidiaries | | (2,339,179) | 321,300 | 4,790,583 | 51,816 | 6,211,650 |
| Total other comprehensive income for the year/period, net of tax | | (5,092,956) | 49,845,183 | 217,974,039 | 274,291,174 | (42,224,543) |
| Total comprehensive income for the year/period | | 754,544,132 | 1,296,334,226 | 3,863,378,565 | 2,732,212,851 | 742,710,243 |
| Attributable to: | | | | | | |
| Owners of CISC | | 751,482,630 | 1,293,890,927 | 3,857,128,253 | 2,727,880,398 | 741,320,382 |
| Non-controlling interests | | 3,061,502 | 2,443,299 | 6,250,312 | 4,332,453 | 1,389,861 |

## II Consolidated statements of financial position

*(Expressed in RMB, unless otherwise stated)*

| | Note | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 30 June 2016 |
|---|---|---|---|---|---|
| Non-current assets | | | | | |
| Property and equipment | 21 | 215,074,123 | 221,685,111 | 213,352,414 | 209,492,614 |
| Intangible assets | 22 | 36,308,103 | 35,689,858 | 50,746,946 | 50,735,404 |
| Interest in associates | 24 | 78,476,038 | 78,408,889 | 98,122,743 | 77,942,686 |
| Goodwill | 25 | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 |
| Available-for-sale financial assets | 26 | 185,522,136 | 176,128,927 | 3,042,638,606 | 2,992,077,183 |
| Held-to-maturity investments | 27 | — | 72,435,214 | 72,266,618 | — |
| Refundable deposits | 28 | 616,784,468 | 658,150,449 | 298,250,086 | 163,243,206 |
| Deferred tax assets | 29 | 128,064,685 | 154,624,640 | 365,981,353 | 328,991,977 |
| Financial assets held under resale agreements ("reverse REPOs") | 35 | 59,164,842 | 47,471,434 | 270,419,699 | 796,408,995 |
| Other non-current assets | 30 | 819,853,649 | 756,844,911 | 741,719,462 | 720,698,484 |
| Total non-current assets | | 2,159,248,044 | 2,221,439,433 | 5,173,497,927 | 5,359,590,549 |
| Current assets | | | | | |
| Accounts receivable | 31 | 149,237,354 | 367,798,711 | 196,509,817 | 252,710,536 |
| Receivable from margin clients | 32 | 7,244,532,804 | 22,265,902,628 | 25,070,317,998 | 17,628,951,450 |
| Available-for-sale financial assets | 26 | 450,205,757 | 356,038,576 | 88,991,422 | 525,392,458 |
| Financial assets at fair value through profit or loss | 33 | 2,217,137,643 | 2,332,438,802 | 6,392,011,438 | 7,989,317,197 |
| Held-to-maturity investments | 27 | 310,393,109 | 30,471,823 | — | 70,889,372 |
| Reverse REPOs | 35 | 764,278,524 | 866,878,796 | 1,529,886,983 | 4,920,132,566 |
| Interest receivable | 36 | 185,251,555 | 246,387,578 | 653,407,143 | 937,110,895 |
| Cash held on behalf of brokerage clients | 37 | 15,482,805,261 | 31,477,404,924 | 48,184,863,755 | 40,195,573,203 |
| Cash and bank balances | 38 | 2,609,282,977 | 5,253,705,053 | 9,078,353,220 | 6,201,564,740 |
| Other current assets | 39 | 47,450,324 | 94,804,788 | 192,160,470 | 473,945,732 |
| Total current assets | | 29,460,575,308 | 63,291,831,679 | 91,386,502,246 | 79,195,588,149 |
| Total assets | | 31,619,823,352 | 65,513,271,112 | 96,560,000,173 | 84,555,178,698 |
| Current liabilities | | | | | |
| Accounts payable to brokerage clients | 41 | 15,552,820,291 | 31,533,084,356 | 48,378,909,457 | 40,353,827,723 |
| Placements from financial institutions | 42 | 2,570,000,000 | 3,063,062,500 | 523,625,000 | 303,418,500 |
| Short-term debt securities issued | 43 | 950,000,000 | 950,000,000 | — | 85,700,000 |
| Financial assets sold under repurchase agreements ("REPOs") | 44 | 2,675,109,027 | 14,402,150,918 | 11,606,621,000 | 11,766,929,253 |
| Employee benefits payable | 45 | 440,608,177 | 553,339,127 | 1,355,928,194 | 1,103,808,416 |
| Income tax payable | | 75,236,671 | 250,482,183 | 445,112,938 | 117,212,259 |
| Long-term debt securities issued due within one year | 46 | — | — | 2,737,020,238 | 2,873,560,420 |
| Other current liabilities | 47 | 413,612,001 | 779,576,493 | 1,090,345,748 | 4,315,703,981 |
| Total current liabilities | | 22,677,386,167 | 51,531,695,577 | 66,137,562,575 | 60,920,160,552 |
| Net current assets | | 6,783,189,141 | 11,760,136,102 | 25,248,939,671 | 18,275,427,597 |
| Total assets less current liabilities | | 8,942,437,185 | 13,981,575,535 | 30,422,437,598 | 23,635,018,146 |

| | Note | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 30 June 2016 |
|---|---|---|---|---|---|
| Non-current liabilities | | | | | |
| Long-term debt securities issued | 46 | — | 480,020,000 | 9,277,392,901 | 8,492,099,683 |
| REPOs | 44 | — | 3,200,000,000 | 6,840,000,000 | — |
| Employee benefits payable | 45 | 38,272,279 | 75,994,902 | 134,120,591 | 65,591,721 |
| Deferred tax liabilities | 29 | 608,879 | 19,850,380 | 104,416,528 | 86,230,921 |
| Other non-current liabilities | | — | — | — | 167,178,000 |
| Total non-current liabilities | | 38,881,158 | 3,775,865,282 | 16,355,930,020 | 8,811,100,325 |
| Net assets | | 8,903,556,027 | 10,205,710,253 | 14,066,507,578 | 14,823,917,821 |
| Equity | | | | | |
| Paid-in capital | 49 | 5,000,000,000 | 5,000,000,000 | 5,000,000,000 | 5,000,000,000 |
| Reserves | 49 | 2,563,505,386 | 2,973,833,098 | 4,493,402,087 | 4,451,394,268 |
| Retained profits | | 1,264,003,164 | 2,147,566,379 | 4,485,125,643 | 5,268,453,844 |
| Total equity attributable to owners of CISC | | 8,827,508,550 | 10,121,399,477 | 13,978,527,730 | 14,719,848,112 |
| Non-controlling interests | | 76,047,477 | 84,310,776 | 87,979,848 | 104,069,709 |
| Total equity | | 8,903,556,027 | 10,205,710,253 | 14,066,507,578 | 14,823,917,821 |

## III Consolidated statements of changes in equity

*(Expressed in RMB, unless otherwise stated)*

| | Attributable to owners of CISC | | | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | |
| | Paid-in capital | Capital reserve | Surplus reserve | General reserves | Investment revaluation reserve | Foreign currency translation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | (Note 49(a)) | | (Note 49(b)) | (Note 49(c)) | (Note 49(d)) | (Note 49(e)) | | | | |
| At 1 January 2013 | 5,000,000,000 | — | 792,836,637 | 1,567,088,924 | (11,158,222) | 1,581,435 | 725,677,146 | 8,076,025,920 | 71,985,975 | 8,148,011,895 |
| Profit for the year | — | — | — | — | — | — | 756,680,904 | 756,680,904 | 2,956,184 | 759,637,088 |
| Other comprehensive income for the year | — | — | — | — | (2,859,095) | (2,339,179) | — | (5,198,274) | 105,318 | (5,092,956) |
| Total comprehensive income for the year | — | — | — | — | (2,859,095) | (2,339,179) | 756,680,904 | 751,482,630 | 3,061,502 | 754,544,132 |
| Appropriation to surplus reserve | — | — | 72,784,962 | — | — | — | (72,784,962) | — | — | — |
| Appropriation to general reserves | — | — | — | 145,569,924 | — | — | (145,569,924) | — | — | — |
| Capital contribution from non-controlling interests | — | — | — | — | — | — | — | — | 1,000,000 | 1,000,000 |
| At 31 December 2013 | 5,000,000,000 | — | 865,621,599 | 1,712,658,848 | (14,017,317) | (757,744) | 1,264,003,164 | 8,827,508,550 | 76,047,477 | 8,903,556,027 |
| At 1 January 2014 | 5,000,000,000 | — | 865,621,599 | 1,712,658,848 | (14,017,317) | (757,744) | 1,264,003,164 | 8,827,508,550 | 76,047,477 | 8,903,556,027 |
| Profit for the year | — | — | — | — | — | — | 1,243,921,070 | 1,243,921,070 | 2,567,973 | 1,246,489,043 |
| Other comprehensive income for the year | — | — | — | — | 49,648,557 | 321,300 | — | 49,969,857 | (124,674) | 49,845,183 |
| Total comprehensive income for the year | — | — | — | — | 49,648,557 | 321,300 | 1,243,921,070 | 1,293,890,927 | 2,443,299 | 1,296,334,226 |
| Appropriation to surplus reserve | — | — | 120,119,285 | — | — | — | (120,119,285) | — | — | — |
| Appropriation to general reserves | — | — | — | 240,238,570 | — | — | (240,238,570) | — | — | — |
| Capital contribution from non-controlling interests | — | — | — | — | — | — | — | — | 5,820,000 | 5,820,000 |
| At 31 December 2014 | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 35,631,240 | (436,444) | 2,147,566,379 | 10,121,399,477 | 84,310,776 | 10,205,710,253 |

| | Attributable to owners of CISC | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | |
| | Paid-in capital | Capital reserve | Surplus reserve | General reserves | Investment revaluation reserve | Foreign currency translation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | **(Note 49(a))** | | **(Note 49(b))** | **(Note 49(c))** | **(Note 49(d))** | **(Note 49(e))** | | | | |
| At 1 January 2015 | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 35,631,240 | (436,444) | 2,147,566,379 | 10,121,399,477 | 84,310,776 | 10,205,710,253 |
| Profit for the year | — | — | — | — | — | — | 3,639,377,462 | 3,639,377,462 | 6,027,064 | 3,645,404,526 |
| Other comprehensive income for the year | — | — | — | — | 212,960,208 | 4,790,583 | — | 217,750,791 | 223,248 | 217,974,039 |
| Total comprehensive income for the year | — | — | — | — | 212,960,208 | 4,790,583 | 3,639,377,462 | 3,857,128,253 | 6,250,312 | 3,863,378,565 |
| Appropriation to surplus reserve | — | — | 542,424,249 | — | — | — | (542,424,249) | — | — | — |
| Appropriation to general reserves | — | — | — | 759,393,949 | — | — | (759,393,949) | — | — | — |
| Capital contribution from non-controlling interests | — | — | — | — | — | — | — | — | 55,300,000 | 55,300,000 |
| Disposal of subsidiary | — | — | — | — | — | — | — | — | (57,881,240) | (57,881,240) |
| At 31 December 2015 | 5,000,000,000 | — | 1,528,165,133 | 2,712,291,367 | 248,591,448 | 4,354,139 | 4,485,125,643 | 13,978,527,730 | 87,979,848 | 14,066,507,578 |
| At 1 January 2015 | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 35,631,240 | (436,444) | 2,147,566,379 | 10,121,399,477 | 84,310,776 | 10,205,710,253 |
| Profit for the period | — | — | — | — | — | — | 2,453,765,811 | 2,453,765,811 | 4,155,866 | 2,457,921,677 |
| Other comprehensive income for the period | — | — | — | — | 274,062,771 | 51,816 | — | 274,114,587 | 176,587 | 274,291,174 |
| Total comprehensive income for the period | — | — | — | — | 274,062,771 | 51,816 | 2,453,765,811 | 2,727,880,398 | 4,332,453 | 2,732,212,851 |
| Appropriation to surplus reserve | — | — | — | — | — | — | — | — | — | — |
| Appropriation to general reserves | — | — | — | — | — | — | — | — | — | — |
| Capital contribution from non-controlling interests | — | — | — | — | — | — | — | — | 50,400,000 | 50,400,000 |
| Disposal of subsidiary | — | — | — | — | — | — | — | — | (6,671,095) | (6,671,095) |
| At 30 June 2015 (Unaudited) | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 309,694,011 | (384,628) | 4,601,332,190 | 12,849,279,875 | 132,372,134 | 12,981,652,009 |

| | Attributable to owners of CISC | | | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | |
| | Paid-in capital | Capital reserve | Surplus reserve | General reserves | Investment revaluation reserve | Foreign currency translation reserve | Retained profits | Total | | |
| | (Note 49(a)) | | (Note 49(b)) | (Note 49(c)) | (Note 49(d)) | (Note 49(e)) | | | | |
| At 1 January 2016 | 5,000,000,000 | — | 1,528,165,133 | 2,712,291,367 | 248,591,448 | 4,354,139 | 4,485,125,643 | 13,978,527,730 | 87,979,848 | 14,066,507,578 |
| Profit for the period | — | — | — | — | — | — | 783,328,201 | 783,328,201 | 1,606,585 | 784,934,786 |
| Other comprehensive income for the period | — | — | — | — | (48,219,469) | 6,211,650 | — | (42,007,819) | (216,724) | (42,224,543) |
| Total comprehensive income for the period | — | — | — | — | (48,219,469) | 6,211,650 | 783,328,201 | 741,320,382 | 1,389,861 | 742,710,243 |
| Appropriation to surplus reserve | — | — | — | — | — | — | — | — | — | — |
| Appropriation to general reserves | — | — | — | — | — | — | — | — | — | — |
| Capital contribution from non-controlling interests | — | — | — | — | — | — | — | — | 14,700,000 | 14,700,000 |
| At 30 June 2016 | 5,000,000,000 | — | 1,528,165,133 | 2,712,291,367 | 200,371,979 | 10,565,789 | 5,268,453,844 | 14,719,848,112 | 104,069,709 | 14,823,917,821 |

## IV Consolidated statements of cash flows

*(Expressed in RMB, unless otherwise stated)*

| | Note | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | | Unaudited | |
| Cash flows from operating activities: | | | | | | |
| Profit before income tax | | 1,037,963,824 | 1,686,635,365 | 4,885,585,018 | 3,282,266,865 | 1,053,020,266 |
| Adjustments for: | | | | | | |
| Interest expenses on debt securities issued and other financing expenses | | 6,811,044 | 53,598,039 | 623,867,396 | 265,066,183 | 325,214,808 |
| Share of losses/(profits) of associates | | 998,815 | 1,302,425 | (758,342) | 484,757 | 1,635,391 |
| Net (gains)/losses from disposal of subsidiaries and associates | | — | — | (9,512,344) | (21,081) | 12,268 |
| Depreciation and amortization expenses | | 113,030,375 | 115,281,296 | 118,445,459 | 59,250,103 | 60,846,321 |
| (Reversal of)/provision for impairment losses | | (8,581,095) | 1,835,912 | 9,310,829 | (157,939) | (485,445) |
| Net gains on disposal of property, equipment and other assets | | (507,507) | (9,627,443) | (1,318,670) | (542,812) | (420,555) |
| Fair value loss/(gain) on financial instruments at fair value through profit or loss | | 46,651,422 | (29,148,142) | (80,125,847) | (116,073,250) | 30,856,520 |
| Foreign exchange loss/(gain) | | 2,659,419 | 49,642 | (2,496,678) | 89,815 | 355,566 |
| Net gains on disposal of available-for-sale investments and held-to-maturity investments | | (801,500) | — | (4,303,752) | — | — |
| Interest income from held-to-maturity investments | | (19,078,336) | (13,893,835) | (5,904,583) | (5,578,759) | (1,184,754) |
| Operating cash flows before movements in working capital | | 1,179,146,461 | 1,806,033,259 | 5,532,788,486 | 3,484,783,882 | 1,469,850,386 |
| (Increase)/decrease in receivable from margin clients | | (5,522,783,672) | (15,021,369,824) | (2,804,415,370) | (14,203,534,438) | 7,441,366,548 |
| Increase in accounts receivable, other receivables and prepayments | | (20,998,018) | (266,257,670) | (166,773,202) | (374,857,457) | (608,474,276) |
| (Increase)/decrease in reverse REPOs | | (795,884,296) | (90,906,864) | (885,956,452) | 380,577,101 | (3,916,234,879) |
| Increase in financial instruments at fair value through profit or loss | | (540,858,094) | (78,328,290) | (4,056,639,685) | (1,010,495,135) | (1,627,972,171) |
| (Increase)/decrease in available-for-sale financial assets | | (156,724,291) | 148,528,455 | 220,212,529 | (22,818,405) | (404,086,437) |

| | Note | Year ended 31 December 2013 | 2014 | 2015 | Six months ended 30 June 2015 | 2016 |
|---|---|---|---|---|---|---|
| | | | | | Unaudited | |
| Decrease/(increase) in cash held on behalf of brokerage clients | | 859,081,620 | (15,994,599,663) | (16,707,458,831) | (43,236,088,655) | 7,989,290,552 |
| (Increase)/decrease in restricted bank deposits | | (305,000,000) | (15,000,000) | (20,675,000) | 220,000,000 | — |
| (Increase)/decrease in refundable deposits | | (239,987,985) | (41,365,981) | 357,375,673 | (115,661,612) | 135,006,880 |
| (Decrease)/increase in accounts payable to brokerage clients | | (1,071,470,977) | 15,980,264,065 | 16,845,825,101 | 43,316,216,957 | (8,025,081,734) |
| Increase/(decrease) in REPOs | | 2,675,059,027 | 14,927,041,891 | 844,470,082 | 8,710,435,082 | (6,679,691,747) |
| Increase/(decrease) in other liabilities | | 2,672,398,169 | 505,667,802 | (1,806,759,055) | 105,010,570 | 3,160,282,527 |
| Cash (used in)/generated from operating activities, before tax | | (1,268,022,056) | 1,859,707,180 | (2,648,005,724) | (2,746,432,110) | (1,065,744,351) |
| Income taxes paid | | (307,066,896) | (287,764,836) | (1,238,993,307) | (525,864,458) | (565,543,690) |
| Net cash (used in)/generated from operating activities | | (1,575,088,952) | 1,571,942,344 | (3,886,999,031) | (3,272,296,568) | (1,631,288,041) |
| Cash flows from investing activities: | | | | | | |
| Proceeds on disposal of property and equipment, investment property, other non-current assets and other intangible assets | | 2,565,115 | 14,956,008 | 3,322,748 | — | 1,438,053 |
| Dividend income and interest income from available-for-sale investments and held-to-maturity investments | | 15,282,364 | 18,161,993 | 7,360,418 | 5,351,528 | 2,562,000 |
| Proceeds on disposal of held-to-maturity investments | | 453,823,351 | 357,000,000 | 30,000,000 | — | — |
| Proceeds on disposal of subsidiaries | | — | — | 118,884,918 | 9,856,445 | 505,607 |
| Proceeds on disposal of available-for-sale investments | | 35,000,000 | 34,800,000 | 15,218,028 | 10,914,276 | — |
| Purchases of property and equipment, investment property, other non-current assets and other intangible assets | | (651,899,084) | (129,070,393) | (123,314,827) | (48,260,236) | (50,301,861) |
| Purchases of associates | | (64,998,815) | (100,000) | (194,487,656) | (200,100,000) | (13,000,000) |
| Purchases of held-to-maturity investments | | (564,000,000) | (150,000,000) | — | (100,000,000) | — |
| Purchases of available-for-sale investments | | — | (16,117,794) | (2,527,360,000) | (30,220,000) | — |
| Net cash (used in)/generated from investing activities | | (774,227,069) | 129,629,814 | (2,670,376,371) | (352,457,987) | (58,796,201) |

| | Note | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | | Unaudited | |
| Cash flows from financing activities: | | | | | | |
| Proceeds from capital contribution by non-controlling interests | | — | 5,820,000 | 55,300,000 | 50,400,000 | 14,700,000 |
| Proceeds from borrowings | | — | 4,093,062,500 | 297,419,000 | 308,943,700 | — |
| Proceeds from issuance of short-term commercial papers | | 950,000,000 | 3,800,000,000 | 1,750,000,000 | 1,750,000,000 | — |
| Proceeds received from subordinated bonds and corporate bonds issued | | — | — | 8,488,700,000 | 5,000,000,000 | — |
| Proceeds from issuance of beneficial certificates | | — | 480,020,000 | 5,534,590,000 | 5,534,590,000 | 140,700,000 |
| Payment of borrowings and debt securities issued | | — | (7,400,000,000) | (5,596,946,500) | (1,162,780,000) | (961,226,000) |
| Interest paid | | (356,248) | (51,002,940) | (164,594,062) | (36,762,575) | (380,522,672) |
| Cash paid relating to other financing activities | | — | — | (5,616,547) | (5,616,547) | — |
| Net cash generated from/(used in) financing activities | | 949,643,752 | 927,899,560 | 10,358,851,891 | 11,438,774,578 | (1,186,348,672) |
| Effect of changes in foreign exchange rate | | (2,659,419) | (49,642) | 2,496,678 | (89,815) | (355,566) |
| Net (decrease)/increase in cash and cash equivalents | | (1,402,331,688) | 2,629,422,076 | 3,803,973,167 | 7,813,930,208 | (2,876,788,480) |
| Cash and cash equivalents at the beginning of the year/period | | 3,706,614,665 | 2,304,282,977 | 4,933,705,053 | 4,933,705,053 | 8,737,678,220 |
| Cash and cash equivalents at the end of the year/period | 40 | 2,304,282,977 | 4,933,705,053 | 8,737,678,220 | 12,747,635,261 | 5,860,889,740 |
| Interest received | | 818,388,700 | 1,489,186,459 | 3,332,159,204 | 1,701,084,755 | 1,138,883,606 |
| Interest paid | | (216,352,202) | (601,463,323) | (1,530,361,336) | (800,140,014) | (611,660,527) |

## B NOTES TO CONSOLIDATED FINANCIAL INFORMATION

*(Expressed in RMB, unless otherwise stated)*

## 1 GENERAL INFORMATION

CISC was established on 27 September 2005 in the PRC as approved by China Securities Regulatory Commission (the "CSRC"). The registered address of CISC is 18th-21st Floors and part of the units on 4th Floor, Tower A, Rongchao Business Center, at the junction of Yitian Road and Fuzhong Road, Futian District, Shenzhen. As at 30 June 2016, the paid-in capital of CISC is RMB5,000,000,000.

The CISC Group principally engage in agency sale of securities and financial product, investment consultancy, securities underwriting and sponsorship, asset management, margin financing and securities lending and other business activities as approved by the "CSRC".

## 2 BASIS OF PREPARATION

### (a) Statement of compliance

These Financial Information set out in this report have been prepared in accordance with all applicable IFRSs and related interpretations, issued by the IASB. Further details of the significant accounting policies adopted are set out in Note 3 of Section B. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the CISC Group has adopted all applicable new and revised IFRSs in issue which are effective for the accounting period ended 30 June 2016 and relevant to the CISC Group for the Relevant Periods. The CISC Group has not adopted any new standards or interpretations that are not yet effective for the accounting period ended 30 June 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended 30 June 2016 are set out in Note 6 of Section B.

The corresponding Financial Information for the six months ended 30 June 2015 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

### (b) Basis of measurement

The Financial Information has been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: financial derivatives, non-derivative financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets. The methods used to measure fair value are discussed further in Note 3 (d)(ii).

(c) **Functional and presentation currency**

The Financial Information is presented in RMB, which is the functional currency of the CISC Group. Each entity in the CISC Group determines its own functional currency which is used to measure the items included in its financial statements, currently using the statutory currency of their registered location as the functional currency. The CISC Group translates the financial statements of subsidiaries from their respective functional currencies into the CISC Group's functional currency if the subsidiaries' functional currencies are not the same as that of the CISC Group.

(d) **Use of estimates and judgments**

The preparation of the Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 4 of Section B.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied to all periods presented in the Financial Information.

(a) **Basis of consolidation**

(i) ***Subsidiaries and non-controlling interests***

Subsidiaries are entities controlled by the CISC Group. The CISC Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the CISC Group has power, only substantive rights (held by the CISC Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized gains arising from intra-group transactions are eliminated in full when preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to CISC, and in respect of which the CISC Group has not agreed any additional terms with the holders of those interests which would result in the CISC Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the CISC Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity holders of CISC. Non-controlling interests in the results of the CISC Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the Relevant Periods between non-controlling interests and the equity holders of CISC.

Changes in the CISC Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the CISC Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(d)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 3(a) (ii)).

In CISC's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 3 (j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) ***Associates and joint ventures***

An associate is an entity in which the CISC Group or CISC has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the CISC Group or CISC and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the CISC Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the CISC Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 3 (j)). Any acquisition-date excess over cost, the CISC Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognized in the CISC Group's profit or loss, whereas the CISC Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the CISC Group's other comprehensive income.

When the CISC Group's share of losses exceeds its interest in the associate or the joint venture, the CISC Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the CISC Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the CISC Group's interest is the carrying amount of the investment under the equity method together with the CISC Group's long-term interests that in substance form part of the CISC Group's net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the CISC Group and its associate or joint venture are eliminated to the extent of the CISC Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the CISC Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(d)).

In CISC's statement of financial position, investments in associates and joint ventures are accounted for under the equity method, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) ***Goodwill***

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the CISC Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 3(j)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(b) **Foreign currency**

(i) ***Translation of foreign currencies***

When the CISC Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the exchange rates that approximate the spot exchange rate ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of each of the Relevant Periods. Exchange gains and losses are recognized in profit or loss, except those arising from foreign currency borrowing used to hedge a net investment in a foreign operation which are recognized in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RMB using the foreign exchange rates ruling at the dates the fair value was measured. The exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognized in other comprehensive income.

(ii) ***Foreign operations***

The results of foreign operations are translated to RMB at the exchange rates approximating the spot exchange rate ruling at the transaction dates. Statement of financial position items are translated to RMB at the closing foreign exchange rates at the end of each of the Relevant Periods. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the foreign currency translation reserve.

Upon disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(c) **Cash and cash equivalents**

Cash and cash equivalents comprise cash and bank balances, demand deposits with bank and other institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

(d) **Financial instruments**

(i) ***Recognition and measurement of financial assets and liabilities***

A financial asset or financial liability is recognized in the statements of financial position when the CISC Group becomes a party to the contractual provisions of a financial instrument.

The CISC Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorized as follows:

(1) *Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)*

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated as at fair value through profit or loss upon initial recognition when:

— the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

— the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

— the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognized in profit or loss.

(2) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses (see Note 3(d)(iii)).

(3) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the CISC Group has the positive intention and ability to hold to maturity, other than

— those that the CISC Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or

— those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see Note 3(d)(iii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the CISC Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

— sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

— sales or reclassifications after the CISC Group has collected substantially all of the asset's original principal; and

— sales or reclassifications that are attributable to non-recurring isolated events beyond the CISC Group's control that could not have been reasonably anticipated.

(4) *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the CISC Group becomes entitled to the dividend (see Note 3(n)(iv)). Impairment losses are recognized in profit or loss (see Note 3(d)(iii)).

Other fair value changes, other than impairment losses, are recognized in other comprehensive income and presented in the investment revaluation reserve within equity. When the investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

(5) *Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) ***Fair value measurement principles***

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the CISC Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The CISC Group obtains market data from the same market where the financial instrument was originated or purchased.

(iii) ***Impairment of financial assets***

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the CISC Group at the end of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to:

— significant financial difficulty of the borrower or issuer;

— a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

— it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— disappearance of an active market for financial assets because of financial difficulties of the issuer;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

(1) *Loans and receivables*

The CISC Group assesses impairment losses on a collective basis. Loans and receivables are grouped for similar aging characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is an observable indication of a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

(2) *Held-to-maturity investments*

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

(3) *Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the investment revaluation reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognized in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

(iv) ***Derecognition of financial assets and financial liabilities***

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

— the contractual rights to the cash flows from the financial asset expire; or

— the CISC Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the CISC Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the CISC Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the CISC Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) ***Offsetting***

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the CISC Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(vi) ***Equity instruments***

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the CISC Group. Considerations received from issuance of equity instruments net of transaction costs are recognized in equity. Considerations and transaction costs paid by the CISC Group for repurchasing its own equity instruments are deducted from equity.

(vii) ***Derivative financial instruments***

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedging instrument are recognized in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

(e) **Financial assets held under resale agreements and financial assets sold under repurchase agreements**

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statement of financial position at amortized cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(f) **Property and equipment**

(i) ***Recognition and measurement***

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses (Note 3(j)). Property and equipment under construction is stated at cost less impairment losses (Note 3(j)).

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalized as the cost of construction in progress.

(ii) ***Subsequent costs***

The subsequent costs including the cost of replacing part of an item of property or equipment are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) ***Depreciation***

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of property and equipment. The estimated useful lives and the rate of net residual values of each class of property and equipment are as follows:

| | Estimated useful life | Estimated rate of residual value |
|---|---|---|
| Buildings | 30—35 years | 3% |
| Office equipment | 3—5 years | 3% |
| Furniture and fixtures | 5 years | 3% |
| Motor vehicles | 5 years | 3% |
| Leasehold improvements | Lease term | 0% |

No depreciation is provided in respect of property and equipment under construction.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) ***Gains or losses from the retirement or disposal***

Gains or losses arising from the retirement or disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss on the date of disposal or retirement.

(g) **Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the CISC Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) ***Assets acquired under finance lease***

Where the CISC Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property and equipment and the corresponding liabilities, net of finance charges, are recorded as long-term finance leases payable. Depreciation is provided at rates which write off the cost over the term of the relevant lease or, where it is likely the CISC Group will obtain ownership of the asset, the life of the asset, as set out in Note 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 3(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) ***Operating lease charges***

Where the CISC Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) **Intangible assets**

Intangible assets are stated in the statement of financial position at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (Note 3(j)).

Amortization of an intangible asset with finite useful life is charged to profit or loss on a straight-line basis over its estimated useful life. Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

(i) **Land use rights**

Land use rights are recognised at cost, being the fair value at the time of the consideration paid. The rights are amortised using the straight-line basis over the periods of the leases. When the prepaid land lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the costs of properties and buildings.

(j) **Impairment of non-financial assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

— property and equipment (other than properties carried at revalued amounts);

— land use rights;

— intangible assets;

— goodwill; and

— investments in subsidiaries, associates and joint ventures in CISC's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(k) **Provisions and contingent liabilities**

A provision is recognized for other liabilities of uncertain timing or amount when the CISC Group or CISC has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) **Employee benefits**

(i) ***Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations in the PRC, the CISC Group participated in the social pension schemes for employees arranged by local government labor and security authorities. The CISC Group makes contributions to the retirement schemes at the applicable rates based on the amount stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

(ii) ***Other long-term employee benefits***

The CISC Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds, that have maturity dates approximating the terms of the CISC Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iii) ***Termination benefits***

Termination benefits are recognized at the earlier of when the CISC Group can no longer withdraw the offer of those benefits and when it recognizes restructuring costs involving the payment of termination benefits.

(m) **Offsetting**

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the CISC Group's trading activity.

(n) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the CISC Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) ***Underwriting, sponsoring fees, financial advisory fees and investment advisory fees***

Underwriting, sponsoring fees, financial advisory fees and investment advisory fees are recognized in profit or loss when the corresponding service is provided.

(ii) ***Asset management fees***

Asset management fees are recognized when CISC is entitled to receive the fees according to the asset management agreement.

(iii) ***Brokerage commission income***

Brokerage commission income includes commission income from brokerage trading of securities and leasing out trading seats. Commission income from brokerage trading of securities is recognized on the trade date. Commission income from leasing out trading seats is recognized on an accrual basis.

(iv) ***Dividend income***

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established. Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(v) ***Interest income***

Interest income is recognized in profit or loss by using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the CISC Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation of the effective interest rate includes all fees paid or received between parties to the contract, transaction costs, and all other discounts or premiums that are an integral part of the effective interest rate.

(o) **Expenses recognition**

(i) ***Interest expenses***

Interest expenses are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) ***Fee and commission expenses***

Fee and commission expenses are charged to profit or loss on an accrual basis.

(iii) ***Other expenses***

Other expenses are recognized on an accrual basis.

(p) **Income tax**

Income tax expense comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the CISC Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if CISC or the CISC Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, CISC or the CISC Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) **Dividends appropriated to investors**

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each of the Relevant Periods are not recognized as a liability at the end of each of the Relevant Periods but disclosed separately in the notes to the Financial Information.

(r) **Government grants**

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the CISC Group will comply with the conditions attaching to them.

Grants that compensate the CISC Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the CISC Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) **Related parties**

(i) A person, or a close member of that person's family, is related to the CISC Group if that person:

  (1) has control or joint control over the CISC Group;

(2) has significant influence over the CISC Group; or

(3) is a member of the key management personnel of the CISC Group or the CISC Group's parent.

(ii) An entity is related to the CISC Group if any of the following conditions applies:

(1) The entity and the CISC Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(3) Both entities are joint ventures of the same third party;

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(5) The entity is a post-employment benefit plan for the benefit of employees of either the CISC Group or an entity related to the CISC Group;

(6) The entity is controlled or jointly controlled by a person identified in (i);

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the CISC Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the CISC Group's various business lines and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of clients, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(u) **Fiduciary activities**

The CISC Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Certain asset management schemes where the CISC Group is involved as both manager and investor were consolidated by the CISC Group (Note 51(a)). Apart from that, assets held by the CISC Group and the related undertakings to return such assets to customers are not included in the consolidated statements of financial position as the risks and rewards of the assets reside with customers.

## 4 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

(a) **Fair value of financial instruments**

As indicated in Note 3(d)(i), financial instruments at fair value through profit or loss and available-for-sale investments are measured at fair value at the end of the reporting period and it is usually possible to determine their fair values within a reasonable range of estimates.

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3 (d)(ii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) **Financial asset and liability classification**

The CISC Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "held for trading", the CISC Group has determined that it meets the definition of financial assets and liabilities held for trading set out in Note 3 (d)(i).

- In designating financial assets or liabilities at fair value through profit or loss, the CISC Group has determined that it has met one of the criteria for this designation set out in Note 3 (d)(i).

- In classifying financial assets as held-to-maturity, the CISC Group has determined that it has both the positive intent and ability to hold the assets until their maturity date as required by accounting policy set out in Note 3 (d)(i). In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgments. Failure in correctly assessing the CISC Group's intent and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(c) **Impairment of available-for-sale investments**

For available-for-sale investments, a significant or prolonged decline in fair value is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the historical data on market volatility as well as in the price of the specific investment are taken into account. The CISC Group also takes into account other factors, such as industry and sector performance and financial information regarding the investee. The CISC Group considers a decline to be significant if the fair value of the investment drops below its initial cost by 50% or more or to be prolonged if the fair value of the investment remains below its cost for one year or longer.

(d) **Impairment of receivables**

Receivables that are measured at amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the CISC Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor and other factors. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognized in prior years is reversed.

(e) **Impairment of non-financial assets**

Non-financial assets are reviewed at the end of each reporting period to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (or a group of assets) is the greater of its fair value less costs of disposal and value in use. In assessing value in use, significant judgments are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(f) **Income tax**

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The CISC Group carefully evaluates tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all tax legislations. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(g) **Determination of consolidation scope**

All facts and circumstances must be taken into consideration in the assessment of whether the CISC Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The CISC Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset management schemes where the CISC Group involves as the manager, the CISC Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the CISC Group is a principal. The asset management scheme shall be consolidated if the CISC Group acts in the role of principal.

## 5 TAXATION

(a) **Business tax and surcharges**

The type of tax derived from services provided applicable to CISC and its domestic subsidiaries is business tax until 30 April 2016. The business tax rate applicable to CISC and its domestic subsidiaries is 5%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of business tax respectively.

(b) **Income tax**

The income tax rate applicable to CISC and its domestic subsidiaries is 25%.

The income tax rate applicable to the subsidiaries in Hong Kong is 16.5%. Taxes of other overseas subsidiaries are charged at the relevant local rates.

(c) **Value-added tax ("VAT") and surcharges**

The services provided by CISC and its domestic subsidiaries are subject to VAT since 1 May 2016. The applicable tax rate for the services income is 6%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of VAT respectively.

## 6 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of the Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods. These include the following which may be relevant to the CISC Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to IAS 7, Disclosure initiative | January 1, 2017 |
| Amendments to IAS 12, Recognition of deferred tax assets for unrealised losses | January 1, 2017 |
| Amendments to IFRS 15, Clarifications to IFRS 15 Revenue from contracts with customers | January 1, 2018 |
| IFRS 15, Revenue from contracts with customers | January 1, 2018 |
| IFRS 9, Financial instruments | January 1, 2018 |
| IFRS 16, Leases | January 1, 2019 |
| Amendment to IFRS 10 and IAS 28 | Effective for annual periods beginning on or after a date to be determined |

**IFRS 9, Financial instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the recognition in other comprehensive income of 'own credit risk' related gains and losses that are part of the fair value changes of financial liabilities designated as measured at fair value through profit or loss. In November 2013 the new requirements for general hedge accounting were added to IFRS 9. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9 that are relevant to the CISC Group are:

All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets, and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The CISC Group is in the process of assessing the potential impact on the financial statements resulting from the adoption of IFRS 9. So far it has concluded that the adoption of IFRS 9 may have an impact on the CISC Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the CISC Group will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way the CISC Group classifies and measures its financial assets, and will require the CISC Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Until a detailed review of the impact of adopting IFRS 9 is performed, the CISC Group cannot provide a reasonable estimate that quantifies the impact on its financial statements nor can it yet conclude whether that impact will be significant or not.

**IFRS 15, Revenue from contracts with customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduced a 5 steps approach to revenue recognition:

Step 1. Identify the contract(s) with the customer.
Step 2. Identify the performance obligations in the contract.
Step 3. Determine the transaction price.
Step 4. Allocate the transaction price to the performance obligations in the contract.
Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The CISC Group is in the process of assessing the potential impact on the Financial Information resulting from the application of IFRS 15. So far it has concluded that the adoption of IFRS 15 is unlikely to have a significant impact on the CISC Group's results of operations and financial position.

**IFRS 16, Leases**

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognized for all leases, subject to limited exceptions. It replaces IAS 17 Leases and the related interpretations including IFRIC 4 Determining whether an arrangement contains a lease.

When IFRS 16 is adopted in the future, it is expected that certain portion of lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities. The CISC Group is in the process of assessing the potential impact on the Financial Information resulting from the application of IFRS 16. Based on current leasing patterns, the directors of CISC expect the adoption of IFRS 16 as compared with the current accounting policy would result in a certain impact on the CISC Group's financial results.

There are no other new standards and amendments that are not yet effective that would be expected to have a material impact on the CISC Group.

## 7 FEE AND COMMISSION INCOME

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Brokerage commission income | 2,277,680,459 | 3,072,584,031 | 7,404,686,507 | 4,341,082,595 | 1,515,431,279 |
| Underwriting and sponsoring fees | 118,677,720 | 122,579,236 | 423,882,413 | 310,576,154 | 291,044,569 |
| Asset management fees | 59,562,178 | 103,286,074 | 183,407,887 | 86,034,046 | 86,088,144 |
| Financial advisory fees | 17,906,160 | 54,626,951 | 174,749,703 | 86,945,915 | 73,347,132 |
| Investment advisory fees | 22,319,990 | 19,884,441 | 19,214,954 | 15,223,075 | 9,788,075 |
| Total | 2,496,146,507 | 3,372,960,733 | 8,205,941,464 | 4,839,861,785 | 1,975,699,199 |

## 8 INTEREST INCOME

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Interest income from financial institutions | 477,852,209 | 551,197,946 | 1,246,455,912 | 519,992,119 | 507,621,901 |
| Interest income from margin financing and securities lending | 427,810,327 | 927,121,039 | 2,443,954,474 | 1,354,168,318 | 781,890,954 |
| Interest income from reverse REPOs | 44,791,183 | 66,286,537 | 85,612,050 | 59,346,011 | 128,792,605 |
| Others | 15,854,199 | 9,493,907 | 2,416,062 | 1,741,139 | 4,281,897 |
| Total interest income on financial assets not at fair value through profit or loss | 966,307,918 | 1,554,099,429 | 3,778,438,498 | 1,935,247,587 | 1,422,587,357 |

## 9 INVESTMENT INCOME

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Net gains/(losses) from disposal of subsidiaries and associates ... | — | — | 9,512,344 | 21,081 | (12,268) |
| Net (losses)/gains from disposal of available-for-sale financial assets | (281,759) | 15,836,735 | 53,452,658 | 10,293,711 | (19,438,198) |
| Dividend income and interest income from available-for-sale financial assets | 15,169,792 | 7,225,162 | 60,064,161 | 52,908,609 | 3,241,445 |
| Net gains from financial instruments at fair value through profit or loss | 134,868,524 | 202,870,365 | 268,477,376 | 279,328,281 | 83,241,533 |
| Net gains/(losses) from derivative financial instruments | 12,551,340 | (44,802,600) | 85,773,439 | 2,745,840 | 46,447 |
| Net gains from held-to-maturity investments | 19,879,836 | 13,893,835 | 5,904,583 | 2,803,216 | 1,184,754 |
| Total | 182,187,733 | 195,023,497 | 483,184,561 | 348,100,738 | 68,263,713 |

## 10 OTHER INCOME AND GAINS

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Tax refunds | 2,355,517 | 2,885,383 | 5,114,047 | 3,631,034 | 3,449,185 |
| Government grants | 9,381,980 | 6,167,009 | 4,308,160 | 2,152,142 | 2,748,678 |
| Rental income | 1,325,317 | 2,350,096 | 3,135,222 | 1,761,952 | 1,353,132 |
| Others | 5,588,829 | 15,974,499 | 1,764,100 | 797,609 | 810,765 |
| Total | 18,651,643 | 27,376,987 | 14,321,529 | 8,342,737 | 8,361,760 |

## 11 FEE AND COMMISSION EXPENSES

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Brokerage expenses | 303,863,807 | 484,361,338 | 1,386,550,062 | 783,409,308 | 326,066,426 |
| Underwriting and sponsoring expenses | 31,207,130 | 31,581,483 | 35,522,947 | 39,181,981 | 64,906,722 |
| Investment advisory expenses | — | 2,029,997 | 140,184 | 66,094 | 1,621,149 |
| Financial advisory expenses | — | 909,876 | 21,698,332 | 17,831,647 | 793,484 |
| Asset management expenses | — | — | 6,830,702 | 1,232,486 | 2,850,533 |
| Total | 335,070,937 | 518,882,694 | 1,450,742,227 | 841,721,516 | 396,238,314 |

## 12 INTEREST EXPENSES

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Interest expenses on accounts payable to brokerage clients | 60,813,017 | 67,596,908 | 192,150,619 | 85,139,675 | 72,579,154 |
| Interest expenses on REPOs | 43,008,062 | 356,385,245 | 1,318,974,689 | 687,960,125 | 437,950,107 |
| Interest expenses on placements from financial institutions | 124,801,482 | 181,096,029 | 136,702,939 | 80,016,848 | 4,678,983 |
| Interest expenses on short-term commercial papers | 6,811,044 | 53,208,371 | 23,963,158 | 21,187,899 | — |
| Interest expenses on corporate bonds | — | — | 57,630,162 | — | 64,820,196 |
| Interest expenses on subordinated bonds | — | — | 261,004,110 | 110,779,452 | 148,606,681 |
| Interest expenses on beneficiary certificates | — | 389,668 | 281,269,966 | 133,098,832 | 111,787,931 |
| Others | 25,988,080 | 30,867,626 | 36,361,181 | 39,765,042 | 38,706,488 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | 261,421,685 | 689,543,847 | 2,308,056,824 | 1,157,947,873 | 879,129,540 |

## 13 STAFF COSTS

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Salaries, bonus and allowance | 906,665,518 | 1,037,411,742 | 2,149,832,080 | 988,670,830 | 562,243,750 |
| Retirement scheme contributions | 63,261,660 | 66,967,674 | 75,253,081 | 36,228,597 | 41,399,879 |
| Other social welfare | 97,446,627 | 96,228,186 | 110,275,069 | 51,812,943 | 62,790,278 |
| Other benefits | 24,447,389 | 38,575,059 | 53,016,440 | 23,556,074 | 15,776,762 |
| Total | 1,091,821,194 | 1,239,182,661 | 2,388,376,670 | 1,100,268,444 | 682,210,669 |

The CISC Group is required to participate in pension schemes in the PRC and Hong Kong jurisdictions whereby the CISC Group is required to pay annual contributions for its employees at certain rate of the wages of employees.

## 14 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration is as follows:

| | Year ended 31 December 2013 | | | | |
|---|---|---|---|---|---|
| Name | Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total remuneration |
| Executive Director | | | | | |
| Long Zenglai | — | 2,284,831 | 1,020,000 | 36,614 | 3,341,445 |
| Hu Changsheng | — | 1,960,777 | 897,600 | 36,614 | 2,894,991 |
| Non-executive Director | | | | | |
| Zhang Jinghua | — | — | — | — | — |
| Yu Jiannan | — | — | — | — | — |
| Independent Non-executive Director | | | | | |
| He Jia | 110,000 | — | — | — | 110,000 |
| Jiang Yanfu | 110,000 | — | — | — | 110,000 |
| Supervisor | | | | | |
| Tian Jisi | — | 1,668,686 | 900,000 | 36,614 | 2,605,300 |
| Li Hui | — | — | — | — | — |
| Wang Yingying | — | — | — | — | — |
| Fu Chaoyang | — | 750,431 | 660,000 | 36,614 | 1,447,045 |
| Zhu Qiang | — | 553,850 | 550,000 | 23,973 | 1,127,823 |
| Total | 220,000 | 7,218,575 | 4,027,600 | 170,429 | 11,636,604 |

| Name | Year ended 31 December 2014<br>Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| Executive Director | | | | | |
| Long Zenglai | — | 2,292,630 | — | 39,658 | 2,332,288 |
| Hu Changsheng | — | 2,192,910 | 1,494,000 | 39,658 | 3,726,568 |
| Non-executive Director | | | | | |
| Zhang Jinghua | — | — | — | — | — |
| Yu Jiannan | — | — | — | — | — |
| Independent Non-executive Director | | | | | |
| He Jia | 110,000 | — | — | — | 110,000 |
| Jiang Yanfu | 110,000 | — | — | — | 110,000 |
| Supervisor | | | | | |
| Tian Jisi | — | 2,280,807 | 1,460,800 | 39,658 | 3,781,265 |
| Li Hui | — | — | — | — | — |
| Wang Yingying | — | — | — | — | — |
| Fu Chaoyang | — | 737,984 | 1,090,000 | 39,658 | 1,867,642 |
| Zhu Qiang | — | 536,037 | 930,000 | 25,543 | 1,491,580 |
| Total | 220,000 | 8,040,368 | 4,974,800 | 184,175 | 13,419,343 |

| Name | Year ended 31 December 2015 Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| Executive Director | | | | | |
| Gao Tao[1] | — | 388,536 | — | 11,633 | 400,169 |
| Long Zenglai[2] | — | 1,153,608 | — | 20,855 | 1,174,463 |
| Hu Changsheng | — | 1,792,008 | — | 44,122 | 1,836,130 |
| Non-executive Director | | | | | |
| Yu Jiannan | — | — | — | — | — |
| Zhang Jinghua[3] | — | — | — | — | — |
| Independent Non-executive Director | | | | | |
| Jiang Yanfu | 110,000 | — | — | — | 110,000 |
| He Jia | 110,000 | — | — | — | 110,000 |
| Supervisor | | | | | |
| Tian Jisi | — | 1,644,576 | — | 44,122 | 1,688,698 |
| Li Hui | — | — | — | — | — |
| Wang Yingying | — | — | — | — | — |
| Fu Chaoyang | — | 767,884 | 2,277,000 | 44,122 | 3,089,006 |
| Zhu Qiang | — | 555,569 | 1,980,000 | 28,405 | 2,563,974 |
| Total | 220,000 | 6,302,181 | 4,257,000 | 193,259 | 10,972,440 |

1 Mr Gao Tao was appointed as Chairman of the Board of Directors and the Chairman of the Executive Board during the meeting of the Board of directors held on October 23, 2015.

2 Mr Long Zenglai resigned as Chairman of the Board of Directors and the Chairman of the Executive Board during the meeting of the Board of directors held on June 16, 2015.

3 Mr Zhang Jinhua resigned from Non-executive Director during the meeting of the Board of directors held on December 28, 2015.

| Name | Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| | Six months ended 30 June 2015 (Unaudited) | | | | |
| Executive Director | | | | | |
| Long Zenglai | — | 1,153,608 | — | 20,855 | 1,174,463 |
| Hu Changsheng | — | 972,036 | — | 20,855 | 992,891 |
| Non-executive Director | | | | | |
| Yu Jiannan | — | — | — | — | — |
| Zhang Jinghua | — | — | — | — | — |
| Independent Non-executive Director | | | | | |
| Jiang Yanfu | 55,000 | — | — | — | 55,000 |
| He Jia | 55,000 | — | — | — | 55,000 |
| Supervisor | | | | | |
| Tian Jisi | — | 845,415 | — | 20,855 | 866,270 |
| Li Hui | — | — | — | — | — |
| Wang Yingying | — | — | — | — | — |
| Fu Chaoyang | — | 412,811 | — | 20,855 | 433,666 |
| Zhu Qiang | — | 284,232 | — | 13,149 | 297,381 |
| Total | 110,000 | 3,668,102 | — | 96,569 | 3,874,671 |

| Name | Six months ended 30 June 2016 Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| Executive Director | | | | | |
| Gao Tao | — | 776,994 | — | 22,879 | 799,873 |
| Hu Changsheng | — | 704,694 | — | 22,879 | 727,573 |
| Non-executive Director | | | | | |
| Yu Jiannan | — | — | — | — | — |
| Independent Non-executive Director | | | | | |
| Jiang Yanfu | 55,000 | — | — | — | 55,000 |
| He Jia | 55,000 | — | — | — | 55,000 |
| Liu Junhai[4] | 30,555 | — | — | — | 30,555 |
| Supervisor | | | | | |
| Tian Jisi[5] | — | 659,980 | — | 19,195 | 679,175 |
| Li Hui | — | — | — | — | — |
| Wang Yingying | — | — | — | — | — |
| Fu Chaoyang | — | 411,447 | — | 22,879 | 434,326 |
| Zhu Qiang | — | 324,893 | — | 15,256 | 340,149 |
| Total | 140,555 | 2,878,008 | — | 103,088 | 3,121,651 |

There were no amounts paid during the year to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the CISC Group, or as inducement to join.

4 Mr Liu Junhai was appointed as Independent Non-executive Director during the meeting of the Board of directors held on 21 March 2016.

5 Mr Tian Jisi was retired and no longer served as the Chairman of the Supervisory Board in June 2016.

## 15 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2013 and 2014, the five individuals with highest emoluments include two directors and supervisors of CISC, whose emoluments are disclosed in Note 14. The emoluments for the rest of the five highest paid individuals for the year ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2015 and 2016 are as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Salaries and other emoluments | 2,282,738 | 3,449,992 | 7,952,268 | 3,938,073 | 1,848,153 |
| Discretionary bonuses | 8,770,000 | 7,324,142 | 29,166,600 | 14,583,300 | 11,165,662 |
| Retirement scheme contributions | 84,559 | 104,858 | 220,608 | 88,863 | 90,094 |
| Total | 11,137,297 | 10,878,992 | 37,339,476 | 18,610,236 | 13,103,909 |

The emoluments of these individuals with the highest emoluments are within the following bands:

| | Number of individuals | | | | |
|---|---|---|---|---|---|
| | Year ended 31 December | | | Six months ended 30 June | |
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| HKD1,000,001 to HKD1,500,000 | — | — | — | — | 3 |
| HKD2,000,001 to HKD2,500,000 | — | — | — | 2 | — |
| HKD3,000,001 to HKD3,500,000 | 2 | — | — | 1 | — |
| HKD3,500,001 to HKD4,000,000 | — | — | — | 1 | — |
| HKD4,000,001 to HKD4,500,000 | — | 3 | — | — | 1 |
| HKD5,500,001 to HKD6,000,000 | — | — | 2 | — | — |
| HKD6,000,001 to HKD6,500,000 | — | — | 1 | — | — |
| HKD6,500,001 to HKD7,000,000 | 1 | — | — | — | — |
| HKD7,000,001 to HKD7,500,000 | — | — | 1 | — | 1 |
| HKD9,000,001 to HKD9,500,000 | — | — | — | 1 | — |
| HKD18,500,001 to HKD19,000,000 | — | — | 1 | — | — |

No emoluments are paid or payable to these individuals in connection with their retirement from employment or as compensation for loss of office during the Relevant Periods.

## 16 DEPRECIATION AND AMORTIZATION EXPENSES

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Depreciation of property and equipment | 91,236,923 | 82,987,968 | 84,693,691 | 43,030,555 | 43,843,640 |
| Amortization of intangible assets | 17,184,149 | 16,639,337 | 18,202,964 | 8,445,146 | 9,228,279 |
| Amortization of land use right | 4,609,303 | 15,653,991 | 15,548,804 | 7,774,402 | 7,774,402 |
| Total | 113,030,375 | 115,281,296 | 118,445,459 | 59,250,103 | 60,846,321 |

## 17 OTHER OPERATING EXPENSES

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Operating lease charges in respect of property and equipment | 203,779,822 | 206,859,118 | 198,816,956 | 98,429,944 | 104,160,558 |
| Business development expenses | 269,369,172 | 249,389,580 | 327,914,461 | 150,835,640 | 87,644,115 |
| Travelling and transportation expenses | 33,527,356 | 34,453,123 | 36,610,298 | 15,286,771 | 15,186,938 |
| Professional service fees | 20,867,032 | 26,728,886 | 41,147,039 | 19,092,059 | 15,342,238 |
| Utilities and maintenance | 85,188,438 | 95,188,959 | 97,139,464 | 45,565,798 | 51,649,293 |
| Securities Investor Protection Fund | 18,101,450 | 22,038,469 | 47,837,342 | 28,315,816 | 11,221,916 |
| Auditors' remuneration | 1,766,971 | 2,978,529 | 1,878,549 | 623,226 | 507,390 |
| Others | 35,744,208 | 32,390,838 | 17,836,805 | 10,116,613 | 6,409,761 |
| Total | 668,344,449 | 670,027,502 | 769,180,914 | 368,265,867 | 292,122,209 |

## 18 (REVERSAL OF)/PROVISION FOR IMPAIRMENT LOSSES

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| (Reversal of)/provision for impairment losses against accounts receivable and other receivables | (8,957,216) | 589,614 | 9,310,829 | (157,939) | (485,445) |
| Provision for impairment losses against available-for-sale financial assets | 376,121 | 1,246,298 | — | — | — |
| Total | (8,581,095) | 1,835,912 | 9,310,829 | (157,939) | (485,445) |

## 19 INCOME TAX EXPENSE

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Current tax | | | | | |
| - PRC income tax | 331,638,585 | 463,972,737 | 1,438,015,690 | 796,860,759 | 233,136,313 |
| Subtotal | 331,638,585 | 463,972,737 | 1,438,015,690 | 796,860,759 | 233,136,313 |
| Deferred tax | | | | | |
| - Origination and reversal of temporary differences | (53,311,849) | (23,826,415) | (197,835,198) | 27,484,429 | 34,949,167 |
| Total | 278,326,736 | 440,146,322 | 1,240,180,492 | 824,345,188 | 268,085,480 |

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

The income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China (for the purpose of this report, Mainland China excludes Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan) during the Relevant Periods. Taxes on profits assessable outside Mainland China have been calculated at the applicable rates of tax prevailing in the countries/jurisdictions in which the CISC Group operates, based on the existing legislation, interpretations and practices. A reconciliation of income tax expenses calculated by applying the PRC statutory income tax rate to profit before tax to income tax expense in the consolidated statements of profit or loss and other comprehensive income is as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Profit before income tax | 1,037,963,824 | 1,686,635,365 | 4,885,585,018 | 3,282,266,865 | 1,053,020,266 |
| Income tax calculated at the PRC statutory income tax rate | 259,490,956 | 421,658,841 | 1,221,396,255 | 820,566,716 | 263,255,067 |
| Non-deductible expenses | 14,924,670 | 18,357,956 | 20,810,699 | 6,622,118 | 5,123,030 |
| Non-taxable interest income | (1,361,180) | (763,544) | (791,598) | (465,608) | (314,300) |
| Non-taxable dividends income | (565,639) | (294,969) | (1,569,460) | (1,523,584) | (87,986) |
| Effect of different applicable tax rates of the subsidiaries | 1,892,932 | 1,148,256 | 624,290 | 132,099 | 942,929 |
| Tax effect of unused tax losses not recognized | 3,452,946 | 2,700,152 | 2,121,601 | 1,580,146 | 1,819,311 |
| Others | 492,051 | (2,660,370) | (2,411,295) | (2,566,699) | (2,652,571) |
| Total income tax expense | 278,326,736 | 440,146,322 | 1,240,180,492 | 824,345,188 | 268,085,480 |

## 20 PROFIT ATTRIBUTABLE TO OWNERS OF CISC

The consolidated profit attributable to owners of CISC includes a profit of RMB727,849,616, RMB1,201,192,847, RMB3,616,161,661, RMB2,441,084,399 and RMB777,478,763, which have been dealt with in the financial statements of CISC in 2013, 2014, 2015 and the six months ended 30 June 2015 and 2016, respectively.

## 21 PROPERTY AND EQUIPMENT

| | Buildings | Office equipment, furniture and fixtures | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2013 | 57,177,275 | 412,909,015 | 48,502,084 | 193,095,741 | 860,631 | 712,544,746 |
| Additions | 2,410,086 | 37,393,535 | 6,706,720 | 15,602,887 | 16,519,404 | 78,632,632 |
| Transfer during the year | — | 242,150 | — | 13,449,512 | (13,691,662) | — |
| Disposal | — | (21,614,746) | (5,066,171) | (49,232,185) | — | (75,913,102) |
| Effect of changes in foreign exchange rate | — | (88,722) | (16,537) | (86,194) | — | (191,453) |
| At 31 December 2013 | 59,587,361 | 428,841,232 | 50,126,096 | 172,829,761 | 3,688,373 | 715,072,823 |
| Accumulated depreciation | | | | | | |
| At 1 January 2013 | (15,296,803) | (332,540,181) | (35,730,760) | (99,632,445) | — | (483,200,189) |
| Additions | (2,207,102) | (38,961,143) | (4,966,968) | (45,101,710) | — | (91,236,923) |
| Disposals | — | 20,251,362 | 4,914,186 | 49,217,715 | — | 74,383,263 |
| Effect of changes in foreign exchange rate | — | 36,219 | 4,680 | 14,250 | — | 55,149 |
| At 31 December 2013 | (17,503,905) | (351,213,743) | (35,778,862) | (95,502,190) | — | (499,998,700) |
| Carrying amount | | | | | | |
| At 31 December 2013 | 42,083,456 | 77,627,489 | 14,347,234 | 77,327,571 | 3,688,373 | 215,074,123 |
| At 1 January 2013 | 41,880,472 | 80,368,834 | 12,771,324 | 93,463,296 | 860,631 | 229,344,557 |

| | Buildings | Office equipment, furniture and fixtures | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2014 | 59,587,361 | 428,841,232 | 50,126,096 | 172,829,761 | 3,688,373 | 715,072,823 |
| Additions | 1,467,126 | 32,628,049 | 10,878,428 | 17,663,083 | 31,230,995 | 93,867,681 |
| Transfer during the year | — | 1,636,092 | — | 29,308,938 | (30,945,030) | — |
| Disposal | (2,747,813) | (44,997,352) | (7,503,550) | (31,350,057) | — | (86,598,772) |
| Effect of changes in foreign exchange rate | — | 2,687 | 1,808 | 1,520 | — | 6,015 |
| At 31 December 2014 | 58,306,674 | 418,110,708 | 53,502,782 | 188,453,245 | 3,974,338 | 722,347,747 |
| Accumulated depreciation | | | | | | |
| At 1 January 2014 | (17,503,905) | (351,213,743) | (35,778,862) | (95,502,190) | — | (499,998,700) |
| Additions | (2,256,127) | (35,121,637) | (5,679,662) | (39,930,542) | — | (82,987,968) |
| Disposals | 784,708 | 42,995,710 | 7,224,658 | 31,319,672 | — | 82,324,748 |
| Effect of changes in foreign exchange rate | — | (31) | (251) | (434) | — | (716) |
| At 31 December 2014 | (18,975,324) | (343,339,701) | (34,234,117) | (104,113,494) | — | (500,662,636) |
| Carrying amount | | | | | | |
| At 31 December 2014 | 39,331,350 | 74,771,007 | 19,268,665 | 84,339,751 | 3,974,338 | 221,685,111 |
| At 1 January 2014 | 42,083,456 | 77,627,489 | 14,347,234 | 77,327,571 | 3,688,373 | 215,074,123 |

| | Buildings | Office equipment, furniture and fixtures | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2015 | 58,306,674 | 418,110,708 | 53,502,782 | 188,453,245 | 3,974,338 | 722,347,747 |
| Additions | — | 44,886,892 | 12,954,402 | 6,976,053 | 14,564,074 | 79,381,421 |
| Transfer during the year | — | 896,157 | — | 15,964,457 | (16,860,614) | — |
| Disposal | — | (31,396,724) | (11,497,086) | (27,540,856) | — | (70,434,666) |
| Effect of changes in foreign exchange rate | — | 304,703 | 32,739 | 303,040 | — | 640,482 |
| At 31 December 2015 | 58,306,674 | 432,801,736 | 54,992,837 | 184,155,939 | 1,677,798 | 731,934,984 |
| Accumulated depreciation | | | | | | |
| At 1 January 2015 | (18,975,324) | (343,339,701) | (34,234,117) | (104,113,494) | — | (500,662,636) |
| Additions | (2,200,258) | (37,511,492) | (6,300,761) | (38,681,180) | — | (84,693,691) |
| Disposals | — | 29,996,729 | 10,893,002 | 26,360,960 | — | 67,250,691 |
| Effect of changes in foreign exchange rate | — | (216,324) | (23,708) | (236,902) | — | (476,934) |
| At 31 December 2015 | (21,175,582) | (351,070,788) | (29,665,584) | (116,670,616) | — | (518,582,570) |
| Carrying amount | | | | | | |
| At 31 December 2015 | 37,131,092 | 81,730,948 | 25,327,253 | 67,485,323 | 1,677,798 | 213,352,414 |
| At 1 January 2015 | 39,331,350 | 74,771,007 | 19,268,665 | 84,339,751 | 3,974,338 | 221,685,111 |

| | Buildings | Office equipment, furniture and fixtures | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2016 | 58,306,674 | 432,801,736 | 54,992,837 | 184,155,939 | 1,677,798 | 731,934,984 |
| Additions | — | 26,769,715 | 927,396 | 4,695,092 | 8,553,498 | 40,945,701 |
| Transfer during the period | — | 106,659 | — | 5,050,207 | (5,156,866) | — |
| Disposal | — | (10,584,446) | (261,600) | (8,301,955) | — | (19,148,001) |
| Effect of changes in foreign exchange rate | — | 107,552 | 11,315 | 106,860 | — | 225,727 |
| At 30 June 2016 | 58,306,674 | 449,201,216 | 55,669,948 | 185,706,143 | 5,074,430 | 753,958,411 |
| Accumulated depreciation | | | | | | |
| At 1 January 2016 | (21,175,582) | (351,070,788) | (29,665,584) | (116,670,616) | — | (518,582,570) |
| Additions | (1,100,129) | (22,684,110) | (3,621,541) | (16,437,860) | — | (43,843,640) |
| Disposal | — | 9,596,469 | 253,752 | 8,301,955 | — | 18,152,176 |
| Effect of changes in foreign exchange rate | — | (86,700) | (9,796) | (95,267) | — | (191,763) |
| At 30 June 2016 | (22,275,711) | (364,245,129) | (33,043,169) | (124,901,788) | — | (544,465,797) |
| Carrying amount | | | | | | |
| At 30 June 2016 | 36,030,963 | 84,956,087 | 22,626,779 | 60,804,355 | 5,074,430 | 209,492,614 |
| At 1 January 2016 | 37,131,092 | 81,730,948 | 25,327,253 | 67,485,323 | 1,677,798 | 213,352,414 |

## 22 INTANGIBLE ASSETS

| | Securities trading seat rights | Software | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2013 | 36,854,900 | 71,511,917 | 108,366,817 |
| Additions | — | 10,603,024 | 10,603,024 |
| Disposals | — | (1,033,029) | (1,033,029) |
| Effect of changes in foreign exchange rate | (24,700) | (34,837) | (59,537) |
| At 31 December 2013 | 36,830,200 | 81,047,075 | 117,877,275 |
| **Accumulated amortization** | | | |
| At 1 January 2013 | (25,602,608) | (39,281,817) | (64,884,425) |
| Additions | (3,604,315) | (13,579,834) | (17,184,149) |
| Disposals | — | 490,790 | 490,790 |
| Effect of changes in foreign exchange rate | — | 8,612 | 8,612 |
| At 31 December 2013 | (29,206,923) | (52,362,249) | (81,569,172) |
| **Carrying amount** | | | |
| At 31 December 2013 | 7,623,277 | 28,684,826 | 36,308,103 |
| At 1 January 2013 | 11,252,292 | 32,230,100 | 43,482,392 |

| | Securities trading seat rights | Software | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2014 | 36,830,200 | 81,047,075 | 117,877,275 |
| Additions | — | 16,432,337 | 16,432,337 |
| Disposals | — | (1,897,029) | (1,897,029) |
| Effect of changes in foreign exchange rate | 2,700 | 3,758 | 6,458 |
| At 31 December 2014 | 36,832,900 | 95,586,141 | 132,419,041 |
| **Accumulated amortization** | | | |
| At 1 January 2014 | (29,206,923) | (52,362,249) | (81,569,172) |
| Additions | (3,604,315) | (13,035,022) | (16,639,337) |
| Disposals | — | 1,479,691 | 1,479,691 |
| Effect of changes in foreign exchange rate | — | (365) | (365) |
| At 31 December 2014 | (32,811,238) | (63,917,945) | (96,729,183) |
| **Carrying amount** | | | |
| At 31 December 2014 | 4,021,662 | 31,668,196 | 35,689,858 |
| At 1 January 2014 | 7,623,277 | 28,684,826 | 36,308,103 |

| | Securities trading seat rights | Software | Total |
|---|---|---|---|
| Cost | | | |
| At 1 January 2015 | 36,832,900 | 95,586,141 | 132,419,041 |
| Additions | — | 33,179,456 | 33,179,456 |
| Disposals | — | (28,000) | (28,000) |
| Effect of changes in foreign exchange rate | 48,900 | 80,602 | 129,502 |
| At 31 December 2015 | 36,881,800 | 128,818,199 | 165,699,999 |
| Accumulated amortization | | | |
| At 1 January 2015 | (32,811,238) | (63,917,945) | (96,729,183) |
| Additions | (3,061,929) | (15,141,035) | (18,202,964) |
| Disposals | — | 28,000 | 28,000 |
| Effect of changes in foreign exchange rate | — | (48,906) | (48,906) |
| At 31 December 2015 | (35,873,167) | (79,079,886) | (114,953,053) |
| Carrying amount | | | |
| At 31 December 2015 | 1,008,633 | 49,738,313 | 50,746,946 |
| At 1 January 2015 | 4,021,662 | 31,668,196 | 35,689,858 |

| | Securities trading seat rights | Software | Total |
|---|---|---|---|
| Cost | | | |
| At 1 January 2016 | 36,881,800 | 128,818,199 | 165,699,999 |
| Additions | — | 9,191,541 | 9,191,541 |
| Disposals | — | — | — |
| Effect of changes in foreign exchange rate | 16,900 | 29,158 | 46,058 |
| At 30 June 2016 | 36,898,700 | 138,038,898 | 174,937,598 |
| Accumulated amortization | | | |
| At 1 January 2016 | (35,873,167) | (79,079,886) | (114,953,053) |
| Additions | (170,833) | (9,057,446) | (9,228,279) |
| Disposals | — | — | — |
| Effect of changes in foreign exchange rate | — | (20,862) | (20,862) |
| At 30 June 2016 | (36,044,000) | (88,158,194) | (124,202,194) |
| Carrying amount | | | |
| At 30 June 2016 | 854,700 | 49,880,704 | 50,735,404 |
| At 1 January 2016 | 1,008,633 | 49,738,313 | 50,746,946 |

## 23 INTEREST IN SUBSIDIARIES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Unlisted shares, at cost ........... | 1,407,733,618 | 1,407,733,618 | 1,407,733,618 | 1,676,197,618 |

Particulars of CISC's principal subsidiaries are as follows:

| Name of company | Note | Place of incorporation and operation | Paid-in capital | Equity interest held by CISC as at 31 December | | | Equity interest held by CISC as at 30 June | Principal activity | Auditor |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 2013 | 2014 | 2015 | 2016 | | |
| China Investment Tianqi Futures Co. Ltd. 中投天琪期貨有限公司 ........................... | 1, 2 | Shenzhen, PRC | RMB300,000,000 | 80% | 80% | 80% | 80% | Commodity futures brokerage, financial futures brokerage, fund sales and asset management | Pan-China Certified Public Accountants LLP |
| China Securities Lucky Stone Capital Management Co. Ltd. 中投瑞石投資管理有限責任公司 ................... | 1, 2 | Shenzhen, PRC | RMB500,000,000 | 100% | 100% | 100% | 100% | Direct investment, financial advisory relating to equity investment | Pan-China Certified Public Accountants LLP |
| China Investment Securities (HK) Financial Holding Limited ...................... | 3, 4 | Hong Kong | HKD500,000,000 | 100% | 100% | 100% | 100% | Securities brokerage, asset management, research and analysis | Elite Partners CPA Limited |
| China Investment Securities Investment Co. Ltd. 中投證券投資有限公司 ........................... | 1, 2 | Tianjin, PRC | RMB500,000,000 | 100% | 100% | 100% | 100% | Financial products investment, financial advisory relating to equity investment, direct investment, and asset management | Pan-China Certified Public Accountants LLP |

*Note:*

1. The English translation of the names is for reference only. The official names of these entities are in Chinese.
2. The statutory auditor of these subsidiaries for the year ended 31 December 2013 was BDO China Shu Lun Pan Certified Public Accountants LLP. And the statutory auditor of these subsidiaries of the CISC Group for the year ended 31 December 2014 and 2015 was Pan-China Certified Public Accountants LLP.
3. The statutory auditor of this subsidiary for the year ended 31 December 2013 was SHINEWING (HK) CPA Limited. And the statutory auditor of this subsidiary was Elite Partners CPA Limited for the year ended 31 December 2014 and 2015.
4. The paid-in capital of China Investment Securities (HK) Financial Holding Limited was changed from HKD180 million to HKD500 million, due to the increased investments of HKD160 million and HKD160 million from CISC on 30 March 2016 and 27 April 2016, respectively.

The CISC Group's subsidiaries have no material non-controlling interests ("NCI").

The following table summarises the information of the total NCI:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Net assets attributable to NCI | 76,047,477 | 84,310,776 | 87,979,848 | 104,069,709 |
| Profit allocated to NCI | 2,956,184 | 2,567,973 | 6,027,064 | 1,606,585 |
| Other comprehensive income allocated to NCI | 105,318 | (124,674) | 223,248 | (216,724) |
| Total comprehensive income allocated to NCI | 3,061,502 | 2,443,299 | 6,250,312 | 1,389,861 |

## 24 INTEREST IN ASSOCIATES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Share of net assets | | | | |
| - Associates | 78,476,038 | 78,408,889 | 98,122,743 | 77,942,686 |
| Total | 78,476,038 | 78,408,889 | 98,122,743 | 77,942,686 |

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

| Name of associate | Form of business structure | Place of incorporation operation | Particulars of issued and paid-in capital | Proportion of ownership interest as at 30 June 2016: CISC Group's effective interest | Held by CISC | Held by a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| 中投長春國家光電信息創業投資基金(有限合夥) ("Electronical Information Fund") | Limited partnership | Changchun, PRC | RMB 250,000,000 | 21% | — | 21% | Direct Investment business |

The summary financial information of the CISC Group's material associate and the reconciliation between the financial information of these associates and their carrying amounts in the CISC Group's Financial Information are disclosed below:

(a) **Electronical Information Fund**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Financial information of the associate | | | | |
| - Assets | 172,581,451 | 267,663,661 | 347,146,199 | 259,519,612 |
| - Liabilities | 85,000 | 10,000 | 10,000 | — |
| - Net assets | 172,496,451 | 267,653,661 | 347,136,199 | 259,519,612 |
| - Operating income | 1,391,160 | 6,133,453 | 4,129,246 | 669,172 |
| - Net loss | (3,549) | (673,990) | (886,562) | (1,810,677) |
| - Other comprehensive income | — | 18,331,200 | 80,369,100 | (85,805,910) |
| - Total comprehensive income | (3,549) | 17,657,210 | 79,482,538 | (87,616,587) |
| Reconciled to the CISC Group's interests in the associate: | | | | |
| Gross amounts of net assets of the associate | 172,496,451 | 267,653,661 | 347,136,199 | 259,519,612 |
| CISC Group's effective interest | 30.43% | 21% | 21% | 21% |
| CISC Group's share of net assets of the associate | 52,490,670 | 56,207,269 | 72,898,602 | 54,499,119 |
| Other adjustment | 8,301 | (161,770) | (161,770) | (161,770) |
| Carrying amount in the Financial Information | 52,498,971 | 56,045,499 | 72,736,832 | 54,337,349 |

(b) **Aggregate information of individually immaterial associates:**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Aggregate carrying amount of individually immaterial associates in the consolidated financial statements | 25,977,067 | 22,363,390 | 25,385,911 | 23,605,338 |
| Aggregate amounts of the Group's share of profit or loss and other comprehensive income of those associates | | | | |
| - (Losses)/profits for the year/period | (997,787) | (999,401) | 944,520 | (1,255,149) |
| - Total comprehensive income | (997,787) | (999,401) | 944,520 | (1,262,701) |

## 25 GOODWILL

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Cost | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 |
| Less: Provision for impairment losses | — | — | — | — |
| Carrying amount | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 |

**Impairment testing on goodwill**

Goodwill is allocated to the CISC Group's CGU identified according to operating segment as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Futures brokerage | 20,000,000 | 20,000,000 | 20,000,000 | 20,000,000 |

The CISC Group acquired the entire equity interest in Tianqi Futures Co., Ltd. in 2008. The CISC Group recognized the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage segment.

The recoverable amount of the CGU is determined based on value-in-use calculations. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash-flows beyond the five-year period are extrapolated using an estimated annual growth rate based on industry growth forecasts. Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rate used is the CGU's specific weighted average cost of capital, adjusted for the risk of the specific CGU.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the CISC Group performed its goodwill impairment test. No impairment losses were recognized for the goodwill related to the futures brokerage CGU since the recoverable amount was greater than its carrying amount.

## 26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| Non-current | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Equity investments | 157,360,001 | 141,392,071 | 454,999,279 | 436,782,882 |
| Asset management schemes | 28,162,135 | 34,736,856 | 2,587,639,327 | 2,555,294,301 |
| Less: Provision for impairment losses | — | — | — | — |
| Total | 185,522,136 | 176,128,927 | 3,042,638,606 | 2,992,077,183 |
| Analyzed into: | | | | |
| Unlisted | 185,522,136 | 176,128,927 | 3,042,638,606 | 2,992,077,183 |
| Total | 185,522,136 | 176,128,927 | 3,042,638,606 | 2,992,077,183 |

| **Current** | **At 31 December** | | | **At 30 June** |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| Equity investments | 51,134,476 | 79,063,939 | 6,051,836 | 3,659,510 |
| Funds | 200,521,878 | 76,766,332 | 345,607 | 33,128 |
| Trust schemes | 178,780,000 | 10,000,000 | — | — |
| Wealth management products | 4,012,931 | 191,839,658 | — | 296,717,689 |
| Asset management schemes | 16,141,527 | — | 83,087,019 | 225,475,171 |
| Less: Provision for impairment losses | (385,055) | (1,631,353) | (493,040) | (493,040) |
| Total | 450,205,757 | 356,038,576 | 88,991,422 | 525,392,458 |
| Analyzed into: | | | | |
| Listed outside Hong Kong | 50,749,420 | 154,198,919 | 5,904,403 | 3,199,598 |
| Unlisted | 399,456,337 | 201,839,657 | 83,087,019 | 522,192,860 |
| Total | 450,205,757 | 356,038,576 | 88,991,422 | 525,392,458 |

CISC has entered into the agreement with China Securities Finance Corporation Limited ("CSF"), and made an investment in the funds managed by CSF at a cost of RMB2,497,140,000 in September 2015. Risk and income arising from the investment shall be shared by all securities companies according to the proportion of their respective contribution. As at 31 December 2015 and at 30 June 2016, the investment reports provided by CSF were used to determine the fair value of the investment.

## 27 HELD-TO-MATURITY INVESTMENTS

| **Non-current** | **At 31 December** | | | **At 30 June** |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| Debt securities | — | 72,435,214 | 72,266,618 | — |
| Total | — | 72,435,214 | 72,266,618 | — |
| Analyzed as: | | | | |
| Listed outside Hong Kong (i) | — | 72,435,214 | 72,266,618 | — |
| Total | — | 72,435,214 | 72,266,618 | — |

| **Current** | **At 31 December** | | | **At 30 June** |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| Debt securities | 310,393,109 | 30,471,823 | — | 70,889,372 |
| Total | 310,393,109 | 30,471,823 | — | 70,889,372 |
| Analyzed as: | | | | |
| Listed outside Hong Kong (i) | 310,393,109 | 30,471,823 | — | 70,889,372 |
| Total | 310,393,109 | 30,471,823 | — | 70,889,372 |

*Note:*

i As at 31 December 2013, 2014, 2015 and 30 June 2016, the securities listed outside Hong Kong were government debt securities and subordinated bond listed on Shanghai Stock Exchange and debt securities traded on inter-bank market.

## 28 REFUNDABLE DEPOSITS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Self-owned refundable deposits........ | 561,934,374 | 579,760,427 | 31,279,940 | 32,454,197 |
| Refundable deposits held on behalf of clients ..................................... | 54,850,094 | 78,390,022 | 266,970,146 | 130,789,009 |
| Total ................................................ | 616,784,468 | 658,150,449 | 298,250,086 | 163,243,206 |

Refundable deposits are mainly placed at China Securities Depository and Clearing Corporation Limited, futures exchanges, CSF, Hong Kong Futures Exchange Clearing Corporation Limited and Hong Kong Securities Clearing Corporation.

## 29 DEFERRED TAX ASSETS/(LIABILITIES)

### (a) Deferred tax assets and liabilities recognized

The components of deferred tax assets/(liabilities) recognized in the consolidated statement of financial position and the movement during the Relevant Periods are as follows:

| | | | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|---|
| | 1 January 2013 | Credited/ (charged) to profit or loss | Credited to equity | Exchange differences in translation of financial statements of overseas subsidiaries | Deferred tax, net | Deferred tax assets | Deferred tax Liabilities |
| Deferred tax arising from: | | | | | | | |
| Staff costs........................ | 68,980,476 | 45,271,154 | — | — | 114,251,630 | 114,251,630 | — |
| Changes in fair values of financial instruments at fair value through profit or loss .............. | (5,027,982) | 11,417,194 | — | — | 6,389,212 | 6,709,476 | (320,264) |
| Changes in fair values of available-for-sale financial assets ............ | 2,641,692 | — | 917,926 | — | 3,559,618 | 3,848,233 | (288,615) |
| Impairment losses ........... | 5,008,612 | (2,149,599) | — | — | 2,859,013 | 2,859,013 | — |
| Others............................. | 1,623,233 | (1,226,900) | — | — | 396,333 | 396,333 | — |
| Total ................................... | 73,226,031 | 53,311,849 | 917,926 | — | 127,455,806 | 128,064,685 | (608,879) |

| | 1 January 2014 | Credited/ (charged) to profit or loss | Charged to equity | Exchange differences in translation of financial statements of overseas subsidiaries | 31 December 2014 Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|
| Deferred tax arising from: | | | | | | | |
| Staff costs | 114,251,630 | 37,103,945 | — | — | 151,355,575 | 151,355,575 | — |
| Changes in fair values of financial instruments at fair value through profit or loss | 6,389,212 | (8,144,643) | — | — | (1,755,431) | — | (1,755,431) |
| Changes in fair values of available-for-sale financial assets | 3,559,618 | — | (15,545,573) | — | (11,985,955) | — | (11,985,955) |
| Impairment losses | 2,859,013 | 410,052 | — | — | 3,269,065 | 3,269,065 | — |
| Others | 396,333 | (5,542,939) | (962,388) | — | (6,108,994) | — | (6,108,994) |
| Total | 127,455,806 | 23,826,415 | (16,507,961) | — | 134,774,260 | 154,624,640 | (19,850,380) |

| | 1 January 2015 | Credited/ (charged) to profit or loss | Charged to equity | Exchange differences in translation of financial statements of overseas subsidiaries | 31 December 2015 Deferred tax, net | Deferred tax assets | Deferred tax Liabilities |
|---|---|---|---|---|---|---|---|
| Deferred tax arising from: | | | | | | | |
| Staff costs | 151,355,575 | 210,217,994 | — | — | 361,573,569 | 361,573,569 | — |
| Changes in fair values of financial instruments at fair value through profit or loss | (1,755,431) | (18,761,250) | — | 16,519 | (20,500,162) | — | (20,500,162) |
| Changes in fair values of available-for-sale financial assets | (11,985,955) | — | (66,841,774) | — | (78,827,729) | (342,832) | (78,484,897) |
| Impairment losses | 3,269,065 | 1,138,720 | — | — | 4,407,785 | 4,407,785 | — |
| Others | (6,108,994) | 5,239,734 | (4,219,378) | — | (5,088,638) | 342,831 | (5,431,469) |
| Total | 134,774,260 | 197,835,198 | (71,061,152) | 16,519 | 261,564,825 | 365,981,353 | (104,416,528) |

| | 1 January 2016 | (Charged)/ credited to profit or loss | Credited to equity | Exchange differences in translation of financial statements of overseas subsidiaries | 30 June 2016 Deferred tax, net | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|
| Deferred tax arising from: | | | | | | | |
| Staff costs | 361,573,569 | (74,808,424) | — | — | 286,765,145 | 286,765,145 | — |
| Changes in fair values of financial instruments at fair value through profit or loss | (20,500,162) | 6,665,357 | — | — | (13,834,805) | — | (13,834,805) |
| Changes in fair values of available-for-sale financial assets | (78,827,729) | — | 11,638,700 | — | (67,189,029) | 4,241,527 | (71,430,556) |
| Impairment losses | 4,407,785 | (659,054) | — | — | 3,748,731 | 3,748,731 | — |
| Others | (5,088,638) | 33,852,954 | 4,506,698 | — | 33,271,014 | 34,236,574 | (965,560) |
| Total | 261,564,825 | (34,949,167) | 16,145,398 | — | 242,761,056 | 328,991,977 | (86,230,921) |

(b) **Deferred tax assets not recognized**

In accordance with the accounting policy set out in Note 3(p), the CISC Group has not recognized deferred tax assets in respect of tax losses amounted to RMB3 million, RMB3 million, RMB2 million and RMB2 million during the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively.

Deferred tax assets not recognized in respect of tax losses are mainly attributable to certain overseas subsidiaries of the CISC Group engaged in investment banking and securities brokerage business.

Deferred tax asset arising from unused tax losses is recognized only to the extent that an entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses can be utilized by the entity, when the entity has a history of recent losses. Deferred tax asset will be recognized for the carry forward of unused tax losses of these subsidiaries to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

## 30 OTHER NON-CURRENT ASSETS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Land use rights | 605,384,660 | 606,560,669 | 591,011,865 | 583,237,463 |
| Prepayment of rental fees | 109,881,605 | 82,700,829 | 61,672,738 | 44,756,001 |
| Rental deposits | 29,661,388 | 30,822,758 | 33,512,126 | 38,651,248 |
| Others | 77,063,203 | 39,685,776 | 59,187,767 | 58,493,355 |
| Less: Provision for impairment loss | (2,137,207) | (2,925,121) | (3,665,034) | (4,439,583) |
| Total | 819,853,649 | 756,844,911 | 741,719,462 | 720,698,484 |

## 31 ACCOUNTS RECEIVABLE

### (a) Analysed by nature:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Unsettled clearing funds receivable | 24,584,357 | 229,270,236 | 93,246,156 | 146,229,368 |
| Trading seat rental fees receivable | 47,326,623 | 68,999,830 | 77,879,896 | 70,350,415 |
| Asset management fees receivable | 6,627,755 | 12,089,184 | 17,121,483 | 28,583,159 |
| Underwriting and advisory fees receivable | 1,010,800 | 5,470,000 | 3,598,801 | 1,949,029 |
| Others | 78,596,236 | 60,506,450 | 13,286,689 | 15,419,076 |
| Less: Provision for impairment losses | (8,908,417) | (8,536,989) | (8,623,208) | (9,820,511) |
| Total | 149,237,354 | 367,798,711 | 196,509,817 | 252,710,536 |

### (b) Analysed by aging:

As at the end of the Relevant Periods, the aging analysis of accounts receivable, based on the trade date, is as follows:

| | At 31 December 2013 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 126,274,461 | 79.84% | (397,934) | 4.47% |
| 1 — 2 years (inclusive) | 4,018,534 | 2.54% | (187,509) | 2.10% |
| 2 — 3 years (inclusive) | 1,384,879 | 0.88% | (147,692) | 1.66% |
| More than 3 years | 26,467,897 | 16.74% | (8,175,282) | 91.77% |
| Total | 158,145,771 | 100.00% | (8,908,417) | 100.00% |

| | At 31 December 2014 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 329,794,457 | 87.63% | (550,729) | 6.45% |
| 1 — 2 years (inclusive) | 23,575,098 | 6.26% | (1,184,092) | 13.87% |
| 2 — 3 years (inclusive) | 3,261,195 | 0.87% | (298,508) | 3.50% |
| More than 3 years | 19,704,950 | 5.24% | (6,503,660) | 76.18% |
| Total | 376,335,700 | 100.00% | (8,536,989) | 100.00% |

| | At 31 December 2015 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 176,385,148 | 85.98% | (2,077,671) | 24.09% |
| 1 — 2 years (inclusive) | 8,114,685 | 3.96% | (515,439) | 5.98% |
| 2 — 3 years (inclusive) | 3,354,297 | 1.64% | (335,430) | 3.89% |
| More than 3 years | 17,278,895 | 8.42% | (5,694,668) | 66.04% |
| Total | 205,133,025 | 100.00% | (8,623,208) | 100.00% |

| | At 30 June 2016 | | | |
|---|---|---|---|---|
| | Gross amount | | Provision for impairment losses | |
| | Amount | % | Amount | % |
| Within 1 year (inclusive) | 231,445,930 | 88.16% | (2,686,513) | 27.36% |
| 1 — 2 years (inclusive) | 4,884,136 | 1.86% | (346,766) | 3.53% |
| 2 — 3 years (inclusive) | 8,430,532 | 3.21% | (945,097) | 9.62% |
| More than 3 years | 17,770,449 | 6.77% | (5,842,135) | 59.49% |
| Total | 262,531,047 | 100.00% | (9,820,511) | 100.00% |

(c) **Analysis of the movement of provision for impairment losses:**

| | Year ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| At the beginning of the year/period | 9,958,755 | 8,908,417 | 8,536,989 | 8,623,208 |
| (Reversal of)/provided for the year/period | (1,050,338) | (371,428) | 86,219 | 1,197,303 |
| At the end of the year/period | 8,908,417 | 8,536,989 | 8,623,208 | 9,820,511 |

## 32 RECEIVABLE FROM MARGIN CLIENTS

### (a) Analyzed by nature:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Individuals | 6,891,839,095 | 21,857,434,498 | 24,710,572,090 | 17,344,954,219 |
| Institutions | 352,693,709 | 408,468,130 | 359,745,908 | 283,997,231 |
| Total | 7,244,532,804 | 22,265,902,628 | 25,070,317,998 | 17,628,951,450 |

### (b) Analyzed by fair value of collaterals:

| | Fair value of collaterals | | | |
|---|---|---|---|---|
| | At 31 December | | | At 30 June |
| | 2013 | 2014 | 2015 | 2016 |
| Stocks and funds | 16,926,476,219 | 56,031,473,246 | 74,281,704,876 | 54,360,029,890 |
| Cash | 517,810,428 | 2,608,973,795 | 5,554,030,053 | 4,054,938,833 |
| Debt securities | 13,500,503 | 12,019,048 | 2,680,158 | 2,234,441 |
| Total | 17,457,787,150 | 58,652,466,089 | 79,838,415,087 | 58,417,203,164 |

The CISC Group evaluates the collectability of receivable from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin client. As at 31 December 2013, 2014, 2015 and 30 June 2016, no provision for impairment losses was made on receivable from margin clients of the CISC Group.

## 33 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

### (a) Analyzed by type:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Financial assets held for trading: | | | | |
| - Equity investments | 101,790,136 | 73,398,939 | 466,855,483 | 704,936,653 |
| - Debt securities | 1,656,348,437 | 1,734,612,797 | 4,960,944,675 | 6,104,393,422 |
| - Funds | 230,812,617 | 524,427,066 | 964,211,280 | 979,987,122 |
| - Wealth management products | 212,366,904 | — | — | — |
| - Asset management schemes | 15,819,549 | — | — | — |
| Financial assets designated as at fair value through profit or loss | | | | |
| - Debt securities | — | — | — | 200,000,000 |
| Total | 2,217,137,643 | 2,332,438,802 | 6,392,011,438 | 7,989,317,197 |

(b) **Analyzed by listing status:**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Listed | | | | |
| - Outside Hong Kong | 1,776,586,469 | 1,812,011,735 | 5,436,421,258 | 6,818,999,461 |
| Unlisted | 440,551,174 | 520,427,067 | 955,590,180 | 1,170,317,736 |
| Total | 2,217,137,643 | 2,332,438,802 | 6,392,011,438 | 7,989,317,197 |

## 34 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

| | At 31 December 2013 | | |
|---|---|---|---|
| | Nominal value | Fair value | |
| | | Assets | Liabilities |
| Equity contracts | | | |
| - Stock index futures | 100,041,840 | 660,000 | — |
| Total | 100,041,840 | | |
| Less: settlement | | (660,000) | — |
| Net position | | — | — |

| | At 31 December 2014 | | |
|---|---|---|---|
| | Nominal value | Fair value | |
| | | Assets | Liabilities |
| Equity contracts | | | |
| - Stock index futures | 155,754,120 | — | (6,826,980) |
| Total | 155,754,120 | | |
| Less: settlement | | — | 6,826,980 |
| Net position | | — | — |

There was no derivative financial assets/liabilities held/borne by the CISC Group as at 31 December 2015 and 30 June 2016.

Under the daily mark-to-market and settlement arrangement, any gains or losses of the CISC Group's position in stock index futures in Mainland China are settled daily and the corresponding receipts and payments are included in "deposits with clearing houses". Accordingly, the net position of the above contracts was nil as at 31 December 2013 and 2014.

## 35 REVERSE REPOS

### (a) Analyzed by collateral type:

***Non-current***

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Equity securities | 59,164,842 | 47,471,434 | 270,419,699 | 796,408,995 |

***Current***

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Debt securities | 358,852,375 | 48,001,450 | 1,106,501,531 | 597,800,000 |
| Equity securities | 405,426,149 | 818,877,346 | 423,385,452 | 4,322,332,566 |
| Total | 764,278,524 | 866,878,796 | 1,529,886,983 | 4,920,132,566 |

### (b) Analyzed by market:

***Non-current***

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Stock exchanges | 59,164,842 | 47,471,434 | 270,419,699 | 796,408,995 |

***Current***

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Inter-bank market | 49,352,255 | — | — | — |
| Stock exchanges | 714,926,269 | 866,878,796 | 1,529,886,983 | 4,920,132,566 |
| Total | 764,278,524 | 866,878,796 | 1,529,886,983 | 4,920,132,566 |

The CISC Group evaluates the collectability of reverse REPOs. As at 31 December 2013, 2014, 2015 and 30 June 2016, no provision for impairment losses was made on reverse REPOs of the CISC Group.

## 36 INTEREST RECEIVABLE

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Interest receivable from debt securities | 33,367,381 | 44,676,230 | 98,125,428 | 143,142,975 |
| Interest receivable from reverse REPOs | 15,964,265 | 14,882,217 | 7,944,306 | 19,680,758 |
| Interest receivable from margin financing and securities lending | 91,878,330 | 141,444,517 | 505,362,367 | 738,574,162 |
| Others | 44,041,579 | 45,384,614 | 41,975,042 | 35,713,000 |
| Total | 185,251,555 | 246,387,578 | 653,407,143 | 937,110,895 |

## 37 CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The CISC Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The CISC Group has classified its clients' monies as cash held on behalf of brokerage clients under the current assets of the consolidated statements of financial position and recognized the corresponding accounts payable to the respective clients on the grounds that the CISC Group is liable for any loss or misappropriation of its clients' monies. In the PRC, the use of clients' monies are restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, the use of clients' monies are restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 38 CASH AND BANK BALANCES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Cash on hand | 544,945 | 405,643 | 472,152 | 1,100,531 |
| Deposits with banks | 2,282,725,860 | 4,270,896,010 | 7,960,585,319 | 5,739,312,680 |
| Deposits with clearing houses | 326,012,172 | 982,403,400 | 1,117,295,749 | 461,151,529 |
| Total | 2,609,282,977 | 5,253,705,053 | 9,078,353,220 | 6,201,564,740 |

## 39 OTHER CURRENT ASSETS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Deferred expenses | 42,978,567 | 36,405,231 | 52,062,772 | 40,857,574 |
| Prepayments of subscription of shares and bonds | — | — | 31,621,800 | 316,596,800 |
| Others | 4,477,129 | 58,578,057 | 113,368,995 | 118,927,158 |
| Less: Provision for impairment loss | (5,372) | (178,500) | (4,893,097) | (2,435,800) |
| Total | 47,450,324 | 94,804,788 | 192,160,470 | 473,945,732 |

## 40 CASH AND CASH EQUIVALENTS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Cash on hand | 544,945 | 405,643 | 472,152 | 1,100,531 |
| Deposits with banks | 2,282,725,860 | 4,270,896,010 | 7,960,585,319 | 5,739,312,680 |
| Deposits with clearing houses | 326,012,172 | 982,403,400 | 1,117,295,749 | 461,151,529 |
| Less: Fixed or restricted bank deposits | (305,000,000) | (320,000,000) | (340,675,000) | (340,675,000) |
| Total | 2,304,282,977 | 4,933,705,053 | 8,737,678,220 | 5,860,889,740 |

The fixed or restricted bank deposits mainly include bank deposits with original maturity of over three months held by the CISC Group.

## 41 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Clients' deposits for brokerage trading | 14,992,405,898 | 28,668,577,526 | 42,485,987,165 | 36,007,046,622 |
| Clients' deposits for margin financing and securities lending | 560,414,393 | 2,864,506,830 | 5,892,922,292 | 4,346,781,101 |
| Total | 15,552,820,291 | 31,533,084,356 | 48,378,909,457 | 40,353,827,723 |

Accounts payable to brokerage clients represents the monies received from and repayable to brokerage clients, which are mainly held at banks and clearing houses. Accounts payable to brokerage clients is interest bearing at the prevailing interest rate.

The balance of the accounts payable includes certain margin deposits and cash collaterals received from clients for their margin financing and securities lending activities under normal course of business. Only the amounts in excess of the required amount of margin deposits and cash collaterals are repayable on demand.

No aging analysis is disclosed in as the option of the directors of CISC, the aging analysis does not give additional value in view of the nature of these business.

## 42 PLACEMENTS FROM FINANCIAL INSTITUTIONS

### (a) Analyzed by funding source:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Due within one year | | | | |
| - Placements from CSF | 2,570,000,000 | 2,570,000,000 | — | — |
| - Placements from banks | — | 493,062,500 | 523,625,000 | 303,418,500 |
| Total | 2,570,000,000 | 3,063,062,500 | 523,625,000 | 303,418,500 |

### (b) Analyzed by residual maturity:

| | At 31 December | | | | | | At 30 June | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | Book value | Interest rate | Book value | Interest rate | Book value | Interest rate | Book value | Interest rate |
| Within 1 month (inclusive) | — | — | 177,502,500 | 2.08% | 226,206,000 | 2.14% | — | — |
| 1 — 3 months (inclusive) | — | — | 315,560,000 | 2.69% | — | — | — | — |
| 3 months — 1 year (inclusive) | 2,570,000,000 | 7.10% | 2,570,000,000 | 5.80% | 297,419,000 | 2.49% | 303,418,500 | 2.65% |
| Total | 2,570,000,000 | | 3,063,062,500 | | 523,625,000 | | 303,418,500 | |

## 43 SHORT-TERM DEBT SECURITIES ISSUED

| | | At 31 December | | | At 30 June |
|---|---|---|---|---|---|
| | Note | 2013 | 2014 | 2015 | 2016 |
| Short-term commercial papers...... | (a) | 950,000,000 | 950,000,000 | — | — |
| Beneficiary certificates ............... | (b) | — | — | — | 85,700,000 |
| Total ........................................... | | 950,000,000 | 950,000,000 | — | 85,700,000 |

### (a) Short-term commercial papers

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2013 | Issuance | Redemption | Book value at 31 December 2013 |
|---|---|---|---|---|---|---|---|
| 13 CISC CP001....... | 2013-11-21 | 2014-02-21 | 6.20% | — | 950,000,000 | — | 950,000,000 |
| Total ...................... | | | | — | 950,000,000 | — | 950,000,000 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2014 | Issuance | Redemption | Book value at 31 December 2014 |
|---|---|---|---|---|---|---|---|
| 13 CISC CP001....... | 2013-11-21 | 2014-02-21 | 6.20% | 950,000,000 | — | (950,000,000) | — |
| 14 CISC CP001....... | 2014-02-18 | 2014-05-21 | 5.40% | — | 950,000,000 | (950,000,000) | — |
| 14 CISC CP002....... | 2014-05-16 | 2014-08-14 | 4.57% | — | 950,000,000 | (950,000,000) | — |
| 14 CISC CP003....... | 2014-08-13 | 2014-11-13 | 4.59% | — | 950,000,000 | (950,000,000) | — |
| 14 CISC CP004....... | 2014-10-20 | 2015-01-20 | 4.35% | — | 950,000,000 | — | 950,000,000 |
| Total ...................... | | | | 950,000,000 | 3,800,000,000 | (3,800,000,000) | 950,000,000 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2015 | Issuance | Redemption | Book value at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| 14 CISC CP004....... | 2014-10-20 | 2015-01-20 | 4.35% | 950,000,000 | — | (950,000,000) | — |
| 15 CISC CP001....... | 2015-04-10 | 2015-07-13 | 4.80% | — | 1,750,000,000 | (1,750,000,000) | — |
| Total ...................... | | | | 950,000,000 | 1,750,000,000 | (2,700,000,000) | — |

(b) **Beneficiary certificates**

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2015 | Issuance | Redemption | Book value at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| CISC Jinhui No.21 .. | 2015-01-15 | 2015-12-21 | 6.80% | — | 250,000,000 | (250,000,000) | — |
| CISC Jinhui No.23 .. | 2015-01-22 | 2015-07-28 | 6.30% | — | 142,600,000 | (142,600,000) | — |
| CISC Jinhui No.24 .. | 2015-01-22 | 2015-07-27 | 6.50% | — | 500,000,000 | (500,000,000) | — |
| CISC Jinhui No.25 .. | 2015-01-23 | 2015-07-28 | 6.30% | — | 124,710,000 | (124,710,000) | — |
| CISC Jinhui No.26 .. | 2015-01-23 | 2015-07-27 | 6.50% | — | 500,000,000 | (500,000,000) | — |
| CISC Jinhui No.28 .. | 2015-03-24 | 2015-06-29 | 5.50% | — | 24,840,000 | (24,840,000) | — |
| CISC Jinhui No.29 .. | 2015-03-24 | 2015-06-24 | 5.60% | — | 15,210,000 | (15,210,000) | — |
| CISC Jinhui No.30 .. | 2015-03-24 | 2015-06-23 | 5.70% | — | 79,440,000 | (79,440,000) | — |
| CISC Jinhui No.31 .. | 2015-03-25 | 2015-06-29 | 5.50% | — | 18,250,000 | (18,250,000) | — |
| CISC Jinhui No.32 .. | 2015-03-25 | 2015-06-24 | 5.60% | — | 9,310,000 | (9,310,000) | — |
| CISC Jinhui No.33 .. | 2015-03-25 | 2015-06-23 | 5.70% | — | 65,730,000 | (65,730,000) | — |
| CISC Jinhui No.41 .. | 2015-05-25 | 2015-11-24 | 6.00% | — | 400,000,000 | (400,000,000) | — |
| CISC Jinhui No.42 .. | 2015-05-26 | 2015-11-25 | 6.00% | — | 350,000,000 | (350,000,000) | — |
| CISC Jinhui No.43 .. | 2015-05-28 | 2015-11-25 | 6.00% | — | 150,000,000 | (150,000,000) | — |
| Total ...................... | | | | — | 2,630,090,000 | (2,630,090,000) | — |

| Name | Issuance date | Maturity date | Nominal interest rate (Note) | Book value at 1 January 2016 | Issuance | Redemption | Book value at 30 June 2016 |
|---|---|---|---|---|---|---|---|
| CISC Zhishubao Kanzhang No.1 .............. | 2016-06-29 | 2016-07-28 | 3% plus floating interest rate | — | 9,850,000 | — | 9,850,000 |
| CISC Zhishubao Kandie No.1 .................. | 2016-06-29 | 2016-07-28 | 3% plus floating interest rate | — | 4,750,000 | — | 4,750,000 |
| CISC Xinhubao No.1 .......... | 2016-04-26 | 2016-05-24 | 6.00% | — | 3,950,000 | (3,950,000) | — |
| CISC Xinhubao No.2 .......... | 2016-04-27 | 2016-05-26 | 6.00% | — | 3,800,000 | (3,800,000) | — |
| CISC Xinhubao No.3 .......... | 2016-05-06 | 2016-06-06 | 6.00% | — | 20,000,000 | (20,000,000) | — |
| CISC Xinhubao No.4 .......... | 2016-05-18 | 2016-06-15 | 6.00% | — | 7,250,000 | (7,250,000) | — |
| CISC Xinhubao No.5 .......... | 2016-06-07 | 2016-06-27 | 4.50% | — | 20,000,000 | (20,000,000) | — |
| CISC Xinhubao No.6 .......... | 2016-06-13 | 2016-08-11 | 4.80% | — | 16,300,000 | — | 16,300,000 |
| CISC Xinhubao No.7 .......... | 2016-06-21 | 2016-07-19 | 4.50% | — | 20,000,000 | — | 20,000,000 |
| CISC Xinhubao No.8 .......... | 2016-06-23 | 2016-08-22 | 4.80% | — | 17,100,000 | — | 17,100,000 |
| CISC Jiejiegao 14days No.1 .................. | 2016-06-27 | 2016-07-11 | 4.50% | — | 2,700,000 | — | 2,700,000 |
| CISC Jiejiegao 20days No.1 .................. | 2016-06-27 | 2016-07-18 | 4.70% | — | 5,000,000 | — | 5,000,000 |
| CISC Jiejiegao 40days No.1 .................. | 2016-06-27 | 2016-08-08 | 5.00% | — | 5,000,000 | — | 5,000,000 |
| CISC Jiejiegao 60days No.1 .................. | 2016-06-27 | 2016-08-25 | 5.50% | — | 5,000,000 | — | 5,000,000 |
| Total .................................. | | | | — | 140,700,000 | (55,000,000) | 85,700,000 |

*Note:* The floating interest rate is calculated based on Shanghai & Shenzhen 300 index.

## 44 REPOS

### (a) Analyzed by collateral type:

***Non-current***

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Debt securities | — | — | — | — |
| Rights and interests in margin financing | — | 3,200,000,000 | 6,840,000,000 | — |
| Total | — | 3,200,000,000 | 6,840,000,000 | — |

***Current***

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Debt securities | 1,175,109,027 | 1,176,660,918 | 3,306,621,000 | 4,741,929,253 |
| Equity securities | — | — | — | 285,000,000 |
| Rights and interests in margin financing | 1,500,000,000 | 13,225,490,000 | 8,300,000,000 | 6,740,000,000 |
| Total | 2,675,109,027 | 14,402,150,918 | 11,606,621,000 | 11,766,929,253 |

### (b) Analyzed by market:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Inter-bank market | 1,174,994,027 | 1,110,521,918 | 2,799,100,000 | 4,116,678,253 |
| Stock exchanges | 115,000 | 66,139,000 | 507,521,000 | 910,251,000 |
| Over-the-counter market | 1,500,000,000 | 16,425,490,000 | 15,140,000,000 | 6,740,000,000 |
| Total | 2,675,109,027 | 17,602,150,918 | 18,446,621,000 | 11,766,929,253 |

### (c) Analyzed by transaction type:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Pledged | 2,576,671,000 | 17,294,829,000 | 18,446,621,000 | 11,213,851,000 |
| Sold | 98,438,027 | 307,321,918 | — | 553,078,253 |
| Total | 2,675,109,027 | 17,602,150,918 | 18,446,621,000 | 11,766,929,253 |

(d) **Analyzed by collateral:**

At the end of Relevant Periods, the carrying amount of the financial assets at fair value through profit or loss and receivable from margin clients that had been placed as financial assets sold under repurchase agreements of the CISC Group are set out as below:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Financial assets at fair value through profit or loss | 1,195,966,730 | 1,191,837,631 | 3,516,386,078 | 5,303,225,102 |
| Receivable from margin clients | 2,027,869,682 | 19,968,883,409 | 17,802,700,720 | 8,342,690,053 |
| Total | 3,223,836,412 | 21,160,721,040 | 21,319,086,798 | 13,645,915,155 |

## 45 EMPLOYEE BENEFITS PAYABLE

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Short-term employee benefits | 413,312,132 | 538,975,977 | 1,326,538,218 | 1,092,931,452 |
| Retirement scheme contributions | 1,172,603 | 1,358,024 | 1,668,008 | 1,668,905 |
| Other social welfare | 20,887,764 | 4,920,457 | 3,313,690 | 3,694,835 |
| Other benefits | 5,235,678 | 8,084,669 | 24,408,278 | 5,513,224 |
| Long-term employee benefits (Note) | 38,272,279 | 75,994,902 | 134,120,591 | 65,591,721 |
| Total | 478,880,456 | 629,334,029 | 1,490,048,785 | 1,169,400,137 |

*Note:* The long-term employee benefits mainly represent the deferred bonus.

## 46 LONG-TERM DEBT SECURITIES ISSUED

| | Note | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 30 June 2016 |
|---|---|---|---|---|---|
| Due within one year | | | | | |
| - Beneficiary certificates.. | (a) | — | — | 2,737,020,238 | 2,873,560,420 |
| Due after one year | | | | | |
| - Beneficiary certificates.. | (a) | — | 480,020,000 | 787,109,589 | — |
| - Corporate bonds ............ | (b) | — | — | 3,490,283,312 | 3,492,099,683 |
| - Subordinated bonds ....... | (c) | — | — | 5,000,000,000 | 5,000,000,000 |
| Subtotal.............................. | | — | 480,020,000 | 9,277,392,901 | 8,492,099,683 |
| Total .................................. | | — | 480,020,000 | 12,014,413,139 | 11,365,660,103 |
| Fair value ......................... | | — | 480,020,000 | 12,245,947,327 | 11,489,134,420 |

(a) **Beneficiary certificates:**

| Name | Nominal value | Issuance date | Due date | Interest rate | Book value at 1 January 2014 | Issuance | Accrued Interest | Redemption | Book value at 31 December 2014 |
|---|---|---|---|---|---|---|---|---|---|
| 14 CISC Jinhui No.1 .......... | 38,520,000 | 2014-12-24 | 2016-06-27 | 6.80% | — | 38,520,000 | — | — | 38,520,000 |
| 14 CISC Jinhui No.2 .......... | 199,780,000 | 2014-12-24 | 2016-06-27 | 6.90% | — | 199,780,000 | — | — | 199,780,000 |
| 14 CISC Jinhui No.3 .......... | 43,480,000 | 2014-12-25 | 2016-06-27 | 6.80% | — | 43,480,000 | — | — | 43,480,000 |
| 14 CISC Jinhui No.4 .......... | 108,240,000 | 2014-12-25 | 2016-06-27 | 6.90% | — | 108,240,000 | — | — | 108,240,000 |
| 14 CISC Jinhui No.5 .......... | 90,000,000 | 2014-12-26 | 2016-06-29 | 6.96% | — | 90,000,000 | — | — | 90,000,000 |
| **Total** ................................. | 480,020,000 | | | | — | 480,020,000 | — | — | 480,020,000 |

| Name | Nominal value | Issuance date | Due date | Interest rate | Book value at 1 January 2015 | Issuance | Accrued Interest | Redemption | Book value at 31 December 2015 |
|---|---|---|---|---|---|---|---|---|---|
| 14 CISC Jinhui No.1 | 38,520,000 | 2014-12-24 | 2016-06-27 | 6.80% | 38,520,000 | — | 2,662,418 | — | 41,182,418 |
| 14 CISC Jinhui No.2 | 199,780,000 | 2014-12-24 | 2016-06-27 | 6.90% | 199,780,000 | — | 14,011,420 | — | 213,791,420 |
| 14 CISC Jinhui No.3 | 43,480,000 | 2014-12-25 | 2016-06-27 | 6.80% | 43,480,000 | — | 2,980,941 | — | 46,460,941 |
| 14 CISC Jinhui No.4 | 108,240,000 | 2014-12-25 | 2016-06-27 | 6.90% | 108,240,000 | — | 7,529,945 | — | 115,769,945 |
| 14 CISC Jinhui No.5 | 90,000,000 | 2014-12-26 | 2016-06-29 | 6.96% | 90,000,000 | — | 6,298,323 | — | 96,298,323 |
| 14 CISC Jinhui No.6 | 60,000,000 | 2014-12-31 | 2016-07-05 | 7.40% | — | 60,000,000 | 4,379,178 | — | 64,379,178 |
| 15 CISC Jinhui No.7 | 22,250,000 | 2015-01-06 | 2016-07-11 | 6.80% | — | 22,250,000 | 1,483,984 | — | 23,733,984 |
| 15 CISC Jinhui No.8 | 19,320,000 | 2015-01-06 | 2016-07-11 | 6.85% | — | 19,320,000 | 1,298,039 | — | 20,618,039 |
| 15 CISC Jinhui No.9 | 48,480,000 | 2015-01-06 | 2016-07-11 | 6.90% | — | 48,480,000 | 3,280,967 | — | 51,760,967 |
| 15 CISC Jinhui No.10 | 31,130,000 | 2015-01-07 | 2016-07-12 | 6.80% | — | 31,130,000 | 2,070,444 | — | 33,200,444 |
| 15 CISC Jinhui No.11 | 154,540,000 | 2015-01-07 | 2016-07-12 | 7.00% | — | 154,540,000 | 10,580,698 | — | 165,120,698 |
| 15 CISC Jinhui No.12 | 20,460,000 | 2015-01-08 | 2016-07-12 | 6.80% | — | 20,460,000 | 1,349,351 | — | 21,809,351 |
| 15 CISC Jinhui No.13 | 73,520,000 | 2015-01-08 | 2016-07-12 | 6.85% | — | 73,520,000 | 4,884,347 | — | 78,404,347 |
| 15 CISC Jinhui No.14 | 8,710,000 | 2015-01-12 | 2016-07-18 | 6.80% | — | 8,710,000 | 571,185 | — | 9,281,185 |
| 15 CISC Jinhui No.15 | 5,540,000 | 2015-01-12 | 2016-07-18 | 6.85% | — | 5,540,000 | 365,974 | — | 5,905,974 |
| 15 CISC Jinhui No.16 | 11,690,000 | 2015-01-12 | 2016-07-19 | 6.90% | — | 11,690,000 | 777,881 | — | 12,467,881 |
| 15 CISC Jinhui No.17 | 14,850,000 | 2015-01-13 | 2016-07-18 | 6.80% | — | 14,850,000 | 971,068 | — | 15,821,068 |
| 15 CISC Jinhui No.18 | 144,700,000 | 2015-01-13 | 2016-07-19 | 7.00% | — | 144,700,000 | 9,740,490 | — | 154,440,490 |
| 15 CISC Jinhui No.19 | 10,850,000 | 2015-01-14 | 2016-07-18 | 6.80% | — | 10,850,000 | 707,480 | — | 11,557,480 |
| 15 CISC Jinhui No.20 | 28,460,000 | 2015-01-14 | 2016-07-19 | 6.85% | — | 28,460,000 | 1,869,393 | — | 30,329,393 |
| 15 CISC Jinhui No.22 | 350,000,000 | 2015-03-26 | 2017-03-27 | 6.45% | — | 350,000,000 | 17,317,808 | — | 367,317,808 |
| 15 CISC Jinhui No.27 | 800,000,000 | 2015-01-23 | 2016-08-01 | 6.70% | — | 800,000,000 | — | — | 800,000,000 |
| 15 CISC Jinhui No.37 | 100,000,000 | 2015-03-25 | 2016-09-26 | 6.45% | — | 100,000,000 | 4,965,616 | — | 104,965,616 |
| 15 CISC Jinhui No.38 | 300,000,000 | 2015-03-26 | 2016-09-26 | 6.45% | — | 300,000,000 | 14,843,836 | — | 314,843,836 |
| 15 CISC Jinhui No.39 | 400,000,000 | 2015-03-26 | 2017-03-28 | 6.45% | — | 400,000,000 | 19,791,781 | — | 419,791,781 |
| 15 CISC Jinhui No.40 | 100,000,000 | 2015-03-30 | 2016-09-28 | 6.45% | — | 100,000,000 | 4,877,260 | — | 104,877,260 |
| 15 CISC Jinhui No.44 | 200,000,000 | 2015-06-25 | 2016-06-27 | 5.80% | — | 200,000,000 | — | — | 200,000,000 |
| **Total** | 3,384,520,000 | | | | 480,020,000 | 2,904,500,000 | 139,609,827 | — | 3,524,129,827 |

| Name | Nominal value | Issuance date | Due date | Interest rate | Book value at 1 January 2016 | Issuance | Accrued Interest | Redemption | Book value at 30 June 2016 |
|---|---|---|---|---|---|---|---|---|---|
| 14 CISC Jinhui No.1 .......... | 38,520,000 | 2014-12-24 | 2016-06-27 | 6.80% | 41,182,418 | — | 1,277,387 | (42,459,805) | — |
| 14 CISC Jinhui No.2 .......... | 199,780,000 | 2014-12-24 | 2016-06-27 | 6.90% | 213,791,420 | — | 6,722,460 | (220,513,880) | — |
| 14 CISC Jinhui No.3 .......... | 43,480,000 | 2014-12-25 | 2016-06-27 | 6.80% | 46,460,941 | — | 1,441,868 | (47,902,809) | — |
| 14 CISC Jinhui No.4 .......... | 108,240,000 | 2014-12-26 | 2016-06-27 | 6.90% | 115,769,945 | — | 3,642,202 | (119,412,147) | — |
| 14 CISC Jinhui No.5 .......... | 90,000,000 | 2014-12-26 | 2016-06-29 | 6.96% | 96,298,323 | — | 3,089,096 | (99,387,419) | — |
| 14 CISC Jinhui No.6 .......... | 60,000,000 | 2014-12-31 | 2016-07-05 | 7.40% | 64,379,178 | — | 2,213,918 | — | 66,593,096 |
| 15 CISC Jinhui No.7 .......... | 22,250,000 | 2015-01-06 | 2016-07-11 | 6.80% | 23,733,984 | — | 754,427 | — | 24,488,411 |
| 15 CISC Jinhui No.8 .......... | 19,320,000 | 2015-01-06 | 2016-07-11 | 6.85% | 20,618,039 | — | 659,897 | — | 21,277,936 |
| 15 CISC Jinhui No.9 .......... | 48,480,000 | 2015-01-06 | 2016-07-11 | 6.90% | 51,760,967 | — | 1,667,978 | — | 53,428,945 |
| 15 CISC Jinhui No.10 ........ | 31,130,000 | 2015-01-07 | 2016-07-12 | 6.80% | 33,200,444 | — | 1,055,520 | — | 34,255,964 |
| 15 CISC Jinhui No.11 ........ | 154,540,000 | 2015-01-07 | 2016-07-12 | 7.00% | 165,120,698 | — | 5,394,081 | — | 170,514,779 |
| 15 CISC Jinhui No.12 ........ | 20,460,000 | 2015-01-08 | 2016-07-12 | 6.80% | 21,809,351 | — | 693,734 | — | 22,503,085 |
| 15 CISC Jinhui No.13 ........ | 73,520,000 | 2015-01-08 | 2016-07-12 | 6.85% | 78,404,347 | — | 2,511,161 | — | 80,915,508 |
| 15 CISC Jinhui No.14 ........ | 8,710,000 | 2015-01-12 | 2016-07-18 | 6.80% | 9,281,185 | — | 295,329 | — | 9,576,514 |
| 15 CISC Jinhui No.15 ........ | 5,540,000 | 2015-01-12 | 2016-07-18 | 6.85% | 5,905,974 | — | 189,225 | — | 6,095,199 |
| 15 CISC Jinhui No.16 ........ | 11,690,000 | 2015-01-12 | 2016-07-19 | 6.90% | 12,467,881 | — | 402,200 | — | 12,870,081 |
| 15 CISC Jinhui No.17 ........ | 14,850,000 | 2015-01-13 | 2016-07-18 | 6.80% | 15,821,068 | — | 503,517 | — | 16,324,585 |
| 15 CISC Jinhui No.18 ........ | 144,700,000 | 2015-01-13 | 2016-07-19 | 7.00% | 154,440,490 | — | 5,050,625 | — | 159,491,115 |
| 15 CISC Jinhui No.19 ........ | 10,850,000 | 2015-01-14 | 2016-07-18 | 6.80% | 11,557,480 | — | 367,889 | — | 11,925,369 |
| 15 CISC Jinhui No.20 ........ | 28,460,000 | 2015-01-14 | 2016-07-19 | 6.85% | 30,329,393 | — | 972,084 | — | 31,301,477 |
| 15 CISC Jinhui No.22 ........ | 350,000,000 | 2015-03-26 | 2017-03-27 | 6.45% | 367,317,808 | — | 11,256,575 | — | 378,574,383 |
| 15 CISC Jinhui No.27 ........ | 800,000,000 | 2015-01-23 | 2016-08-01 | 6.70% | 800,000,000 | — | — | — | 800,000,000 |
| 15 CISC Jinhui No.37 ........ | 100,000,000 | 2015-03-25 | 2016-09-26 | 6.45% | 104,965,616 | — | 3,216,164 | — | 108,181,780 |
| 15 CISC Jinhui No.38 ........ | 300,000,000 | 2015-03-26 | 2016-09-26 | 6.45% | 314,843,836 | — | 9,648,493 | — | 324,492,329 |
| 15 CISC Jinhui No.39 ........ | 400,000,000 | 2015-03-26 | 2017-03-28 | 6.45% | 419,791,781 | — | 12,864,658 | — | 432,656,439 |
| 15 CISC Jinhui No.40 ........ | 100,000,000 | 2015-03-30 | 2016-09-28 | 6.45% | 104,877,260 | — | 3,216,165 | — | 108,093,425 |
| 15 CISC Jinhui No.44 ........ | 200,000,000 | 2015-06-25 | 2016-06-27 | 5.80% | 200,000,000 | — | — | (200,000,000) | — |
| **Total** ................................ | 3,384,520,000 | | | | 3,524,129,827 | — | 79,106,653 | (729,676,060) | 2,873,560,420 |

(b) **Corporate bonds:**

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2015 | Increase | Decrease | Book value at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| 15 CISC G1(i)................ | 2015-07-24 | 2018-07-23 | 3.62% | — | 3,490,283,312 | — | 3,490,283,312 |
| **Total** .............................. | | | | — | 3,490,283,312 | — | 3,490,283,312 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2016 | Increase | Decrease | Book value at 30 June 2016 |
|---|---|---|---|---|---|---|---|
| 15 CISC G1(i)................ | 2015-07-24 | 2018-07-23 | 3.62% | 3,490,283,312 | 1,816,371 | — | 3,492,099,683 |
| **Total** .............................. | | | | 3,490,283,312 | 1,816,371 | — | 3,492,099,683 |

(i) CISC issued a corporate bond with a principal amount of RMB 3.5 billion on 24 July 2015 with a maturity date of 23 July 2018. Interests of the corporate bond are payable annually. This corporate bond is listed on Shanghai Stock Exchange.

## (c) Subordinated bonds:

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2015 | Issuance | Redemption | Book value at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| 15 CISC 01(i) | 2015-01-26 | 2019-01-26 | 1st - 2nd years 6.20% 3rd - 4th years 9.20% | — | 2,000,000,000 | — | 2,000,000,000 |
| 15 CISC 02(ii) | 2015-03-02 | 2019-03-02 | 1st - 2nd years 5.80% 3rd - 4th years 8.80% | — | 3,000,000,000 | — | 3,000,000,000 |
| **Total** | | | | — | 5,000,000,000 | — | 5,000,000,000 |

| Name | Issuance date | Maturity date | Nominal interest rate | Book value at 1 January 2016 | Issuance | Redemption | Book value at 30 June 2016 |
|---|---|---|---|---|---|---|---|
| 15 CISC 01(i) | 2015-01-26 | 2019-01-26 | 1st - 2nd years 6.20% 3rd - 4th years 9.20% | 2,000,000,000 | — | — | 2,000,000,000 |
| 15 CISC 02(ii) | 2015-03-02 | 2019-03-02 | 1st - 2nd years 5.80% 3rd - 4th years 8.80% | 3,000,000,000 | — | — | 3,000,000,000 |
| **Total** | | | | 5,000,000,000 | — | — | 5,000,000,000 |

*Notes:*

(i) CISC issued subordinated bonds with a principal amount of RMB 2 billion on 26 January 2015 with a maturity date of 26 January 2019. Interests of the subordinated bonds are payable annually. CISC has an option to redeem the bonds on 26 January 2017.

(ii) CISC issued subordinated bonds with a principal amount of RMB 3 billion on 2 March 2015 with a maturity date of 2 March 2019. Interests of the subordinated bonds are payable annually. CISC has an option to redeem the bonds on 2 March 2017.

## 47 OTHER CURRENT LIABILITIES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Taxes payable | 76,316,253 | 92,609,990 | 119,300,169 | 78,752,379 |
| Interests payable | 48,295,730 | 85,378,452 | 520,987,685 | 376,667,062 |
| Accrued expenses | 33,481,056 | 41,423,927 | 81,162,561 | 94,987,027 |
| Trade payables | 5,702,858 | 271,044,318 | 253,312,392 | 159,308,577 |
| Payables to the investors of consolidated structured entities | 193,904,331 | 98,523,114 | 35,695,713 | 3,526,274,883 |
| Others | 55,911,773 | 190,596,692 | 79,887,228 | 79,714,053 |
| Total | 413,612,001 | 779,576,493 | 1,090,345,748 | 4,315,703,981 |

## 48 MOVEMENT IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balance of each component of the CISC Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in CISC's components of equity between the beginning and the end of the Relevant Periods are set out below:

| | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital (Note 49(a)) | Capital reserve | Surplus reserve (Note 49(b)) | General reserves (Note 49(c)) | Investment revaluation reserve (Note 49(d)) | Retained profits | Total |
| At 1 January 2013 | 5,000,000,000 | — | 792,836,637 | 1,567,088,924 | (13,818,297) | 688,120,033 | 8,034,227,297 |
| Profit for the year | — | — | — | — | — | 727,849,616 | 727,849,616 |
| Other comprehensive income for the year | — | — | — | — | 1,084,602 | — | 1,084,602 |
| Total comprehensive income for the year | — | — | — | — | 1,084,602 | 727,849,616 | 728,934,218 |
| Appropriation to surplus reserve | — | — | 72,784,962 | — | — | (72,784,962) | — |
| Appropriation to general reserves | — | — | — | 145,569,924 | — | (145,569,924) | — |
| At 31 December 2013 | 5,000,000,000 | — | 865,621,599 | 1,712,658,848 | (12,733,695) | 1,197,614,763 | 8,763,161,515 |

| | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital (Note 49(a)) | Capital reserve | Surplus reserve (Note 49(b)) | General reserves (Note 49(c)) | Investment revaluation reserve (Note 49(d)) | Retained profits | Total |
| At 1 January 2014 | 5,000,000,000 | — | 865,621,599 | 1,712,658,848 | (12,733,695) | 1,197,614,763 | 8,763,161,515 |
| Profit for the year | — | — | — | — | — | 1,201,192,847 | 1,201,192,847 |
| Other comprehensive income for the year | — | — | — | — | 62,805,959 | — | 62,805,959 |
| Total comprehensive income for the year | — | — | — | — | 62,805,959 | 1,201,192,847 | 1,263,998,806 |
| Appropriation to surplus reserve | — | — | 120,119,285 | — | — | (120,119,285) | — |
| Appropriation to general reserves | — | — | — | 240,238,570 | — | (240,238,570) | — |
| At 31 December 2014 | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 50,072,264 | 2,038,449,755 | 10,027,160,321 |

| | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital (Note 49(a)) | Capital reserve | Surplus reserve (Note 49(b)) | General reserves (Note 49(c)) | Investment revaluation reserve (Note 49(d)) | Retained profits | Total |
| At 1 January 2015 | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 50,072,264 | 2,038,449,755 | 10,027,160,321 |
| Profit for the year | — | — | — | — | — | 3,616,161,661 | 3,616,161,661 |
| Other comprehensive income for the year | — | — | — | — | (34,213,596) | — | (34,213,596) |
| Total comprehensive income for the year | — | — | — | — | (34,213,596) | 3,616,161,661 | 3,581,948,065 |
| Appropriation to surplus reserve | — | — | 542,424,249 | — | — | (542,424,249) | — |
| Appropriation to general reserves | — | — | — | 759,393,949 | — | (759,393,949) | — |
| At 31 December 2015 | 5,000,000,000 | — | 1,528,165,133 | 2,712,291,367 | 15,858,668 | 4,352,793,218 | 13,609,108,386 |

| | Paid-in capital (Note 49(a)) | Reserves: Capital reserve | Reserves: Surplus reserve (Note 49(b)) | Reserves: General reserves (Note 49(c)) | Reserves: Investment revaluation reserve (Note 49(d)) | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2015 | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 50,072,264 | 2,038,449,755 | 10,027,160,321 |
| Profit for the period | — | — | — | — | — | 2,441,084,399 | 2,441,084,399 |
| Other comprehensive income for the period | — | — | — | — | 17,470,097 | — | 17,470,097 |
| Total comprehensive income for the period | — | — | — | — | 17,470,097 | 2,441,084,399 | 2,458,554,496 |
| Appropriation to surplus reserve | — | — | — | — | — | — | — |
| Appropriation to general reserves | — | — | — | — | — | — | — |
| At 30 June 2015 (Unaudited) | 5,000,000,000 | — | 985,740,884 | 1,952,897,418 | 67,542,361 | 4,479,534,154 | 12,485,714,817 |

| | Paid-in capital (Note 49(a)) | Reserves: Capital reserve | Reserves: Surplus reserve (Note 49(b)) | Reserves: General reserves (Note 49(c)) | Reserves: Investment Revaluation reserve (Note 49(d)) | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 5,000,000,000 | — | 1,528,165,133 | 2,712,291,367 | 15,858,668 | 4,352,793,218 | 13,609,108,386 |
| Profit for the period | — | — | — | — | — | 777,478,763 | 777,478,763 |
| Other comprehensive income for the period | — | — | — | — | (11,412,978) | — | (11,412,978) |
| Total comprehensive income for the period | — | — | — | — | (11,412,978) | 777,478,763 | 766,065,785 |
| Appropriation to surplus reserve | — | — | — | — | — | — | — |
| Appropriation to general reserves | — | — | — | — | — | — | — |
| At 30 June 2016 | 5,000,000,000 | — | 1,528,165,133 | 2,712,291,367 | 4,445,690 | 5,130,271,981 | 14,375,174,171 |

## 49 PAID-IN CAPITAL AND RESERVES

### (a) Paid-in capital

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Paid-in capital | 5,000,000,000 | 5,000,000,000 | 5,000,000,000 | 5,000,000,000 |

### (b) Surplus reserve

#### (i) *Statutory surplus reserve*

CISC is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC after offsetting prior year's accumulated loss, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of the equity holder, the statutory reserve may be used to offset accumulated losses, or converted into capital of CISC provided that the balance of the statutory surplus reserve after such capitalization is not less than 25% of the registered capital immediately before the capitalization.

#### (ii) *Discretionary surplus reserve*

After making the appropriation to the statutory surplus reserve and other non-discretionary surplus reserves, CISC may also appropriate its after-tax profit for the year, as determined under China Accounting Standards, to its discretionary surplus reserve upon approval by the equity holder.

In accordance with the resolutions of the board of directors on 26 August 2014, CISC is required to appropriate 5% of its net profit to discretionary surplus reserve since 2015.

### (c) General reserves

General reserves include general risk reserve and trading risk reserve.

In accordance with the Financial Rules for Financial Enterprises (Order of the MOF No. 42) and the application guidance (Caijin [2007] No. 23) issued by the MOF, and the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, CISC is required to appropriate an amount equivalent to 10% of its net profit to general risk reserve.

In accordance with the resolutions of the board of directors on 26 August 2014, CISC is required to appropriate 11% of its net profit to general risk reserve since 2015.

In accordance with the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, CISC is required to appropriate an amount equivalent to 10% of the net profit to its trading risk reserve.

(d) **Investment revaluation reserve**

The investment revaluation reserve comprises the cumulative net changes in fair values of available-for-sale financial assets held at the end of Relevant Periods.

(e) **Foreign currency translation reserve**

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of the CISC Group entities from their respective reporting currencies to RMB.

## 50 COMMITMENTS

(a) **Capital commitments**

Capital commitments outstanding at 31 December 2013, 2014 and 2015 and 30 June 2016 not provided for in the statements of financial position were as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Contracted, but not provided for | 10,000,000 | 30,000,000 | 66,469,875 | 66,469,875 |

(b) **Operating lease commitments**

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Within 1 year (inclusive) | 121,659,728 | 110,715,636 | 110,895,801 | 144,152,325 |
| 1 - 2 years (inclusive) | 86,504,998 | 76,581,969 | 122,615,729 | 140,894,267 |
| 2 - 3 years (inclusive) | 53,016,194 | 89,507,878 | 99,535,638 | 113,432,416 |
| More than 3 years | 148,358,119 | 157,540,312 | 108,322,637 | 100,406,150 |
| Total | 409,539,039 | 434,345,795 | 441,369,805 | 498,885,158 |

(c) **Underwriting commitments**

There was no underwriting commitments taken but not provided for by the CISC Group at 31 December 2013, 2014 and 2015 and 30 June 2016.

## 51 INTERESTS IN STRUCTURED ENTITIES

### (a) Interests in structured entities consolidated by the CISC Group

Structured entities consolidated by the CISC Group are certain asset management schemes where the CISC Group is involved as both manager and investor. The CISC Group assesses whether the combination of its investments in these schemes and its remuneration generated from the investments creates an exposure to the variability of returns from the activities of these asset management schemes to a level of such significance that it indicates that the CISC Group is a principal.

As at 31 December 2013, 2014, 2015 and 30 June 2016, the total assets of the consolidated asset management schemes are RMB298 million, RMB223 million, RMB107 million and RMB4,004 million respectively, and the carrying amount of interests held by the CISC Group in the consolidated asset management schemes are RMB104 million, RMB125 million, RMB71 million and RMB478 million respectively.

### (b) Interests in structured entities sponsored by third party institutions

The types of structured entities that the CISC Group does not consolidate but holds an interest include wealth management products, asset management schemes, mutual funds, trust products, and other vehicles issued by other financial institutions.

The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through issuing units to investors.

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Carrying amount of interests held by the CISC Group | | | | |
| - Financial assets at fair value through profit or loss | 458,999,070 | 524,427,066 | 964,211,280 | 979,987,122 |
| - Available-for-sale financial assets | 399,456,336 | 278,605,990 | 2,521,750,856 | 2,989,614,477 |

The CISC Group's exposure to the variable returns in these structured entities is not significant and the maximum exposure to loss is limited to the carrying amount of the interests held by the CISC Group.

(c) **Interests in structured entities sponsored by the CISC Group but not consolidated**

Structured entities for which the CISC Group serves as general partner or manager, therefore has power over them during the relevant periods include asset management products. These structured entities are mainly financed through issuing units to investors.

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Carrying amount of interests held by the CISC Group | | | | |
| - Available-for-sale financial assets .... | 28,162,135 | 34,736,856 | 149,321,097 | 87,905,812 |
| - Accounts receivable ......................... | 6,627,755 | 12,089,184 | 17,150,050 | 28,687,252 |

For the year ended 31 December 2013, 2014, 2015, and the six months ended 30 June 2016, the CISC Group obtained management fee and performance fee amounting to RMB55 million, RMB93 million, RMB161 million and RMB74 million respectively from these unconsolidated structured entities.

The CISC Group's exposure to the variable returns in these structured entities is not significant, except for those which have been consolidated by the CISC Group as set out in Note 51(a). The maximum exposure to loss is limited to the carrying amount of the interests held by the CISC Group presented above.

## 52 CONTINGENCIES

As of 30 June 2016, CISC held one property under construction for which CISC had obtained the relevant land use right certificates and the construction permits required under PRC law. Up to the date of the approval of these Financial Information, construction of this property has not commenced. According to relevant laws and regulations, in the event of delay in commencement of construction work on land, a company may be subject to a penalty on idle land equivalent to no more than 20% of the property grant premium and/or the forfeiture of the land. However, if the delay of commencement is caused by government actions or force majeure, CISC may negotiate with the relevant authorities for postponing the commencement date and extending the time period for development and construction of the property. CISC is still in the process of communicating with the relevant government authorities to postpone the construction commencement date and to extend the construction period. The amount of penalty is subject to the decision of the relevant government authorities, and the directors are in the view that such amount cannot be reliably estimated. As such, no provision was made as at 30 June 2016.

Except for the above, the CISC Group has no other outstanding matters which have a material impact on its financial position as at 31 December 2013, 2014 and 2015 and 30 June 2016.

## 53 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

### (a) Related party transactions with parent company and its related parties

CISC is wholly owned by Central Huijin Investment Ltd. ("Huijin").

Huijin is a state-owned investment company established on 16 December 2003 under the Company Law of the PRC and is incorporated in Beijing, PRC. Huijin has total registered and paid-in capital of RMB828,209 million. Huijin is a wholly-owned subsidiary of China Investment Corporation Limited. It was established to hold certain equity investments as authorized by the State Council and does not engage in other commercial activities. Huijin exercises legal rights and obligations in the CISC Group on behalf of the PRC Government.

Huijin holds equity interests in a number of banks and non-bank financial institutions in the PRC under the direction of the Chinese government (collectively referred to as the "Huijin Group"). The CISC Group enters into transactions with Huijin Group under normal commercial terms.

The material transactions and balances with Huijin Group are as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Brokerage commission income | 16,666,437 | 9,651,802 | 26,856,200 | 14,498,085 | 10,590,381 |
| Interest income | 236,915,883 | 360,790,594 | 813,467,568 | 332,139,328 | 249,601,533 |
| Interest expenses | (139,338) | (92,650,599) | (32,739,212) | (11,042,410) | (10,192,784) |
| Other income and gains | 1,046,419 | 1,046,419 | 1,046,419 | 523,210 | 518,667 |

The balances of transactions with Huijin Group are as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Cash and bank balances (Note) | 11,182,564,885 | 23,808,581,108 | 33,819,732,643 | 27,818,096,440 |
| Financial assets at fair value through profit or loss | — | — | 100,000,000 | — |
| Reverse REPOs | 49,352,255 | — | — | — |
| REPOs | (178,000,000) | (4,442,100,000) | (1,238,000,000) | (522,837,552) |
| Other current liabilities | (1,775,830) | (2,041,398) | (2,413,793) | (2,742,886) |

*Note:* The balance of cash and bank balances with Huijin Group includes balance of cash and bank balances and cash held on behalf of brokerage clients.

(b) **Related party transactions with key management personnel**

The key management personnel are those who have the authority and responsibility to plan, direct and control directly or indirectly, the activities of the CISC Group, including members of the Board of Directors and the supervisory board, and other senior executives.

Remuneration for key management personnel of the CISC Group, including amounts paid to CISC's directors and supervisors as disclosed in Note 14, is as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Salaries, allowances and benefits in kind | 17,578,603 | 20,378,405 | 14,946,731 | 8,068,827 | 6,484,819 |
| Discretionary bonuses (Note) | 10,687,600 | 13,326,260 | 4,257,000 | — | — |
| Retirement scheme contributions | 376,157 | 365,657 | 395,127 | 190,874 | 194,614 |
| Total | 28,642,360 | 34,070,322 | 19,598,858 | 8,259,701 | 6,679,433 |

*Note:* The discretionary bonuses of the CISC Group's key management personnel for the year ended 31 December 2015 and the six months ended 30 June 2016 have not yet been finalized.

Total remuneration of key management personnel is included in "staff costs" (see Note 13).

## 54 SEGMENT REPORTING

Reportable segments are identified based on operating segments which are determined based on the structure of the CISC Group's internal organization, management requirements and internal reporting system. An operating segment is a component of the CISC Group:

— that engages in business activities from which it may earn revenues and incur expenses;

— whose operating results are regularly reviewed by the CISC Group's management for the purposes of resources allocation and performance evaluation; and

— for which financial information regarding financial position, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics in respect of:

— the nature of services;

— the type or class of customers for the services;

— the methods used to provide the services; and

— the nature of the regulatory environment.

For management purposes, the CISC Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the CISC Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments. A summary of the operating segments is as follows:

— Brokerage segment engages in the trading of stocks, funds, bonds and futures on behalf of the clients, and also providing investment and financing solutions to high-end, professional and institutional clients, including sale of financial products, margin financing and securities-backed lending.

— Investment Banking segment provides investment banking services, including equity financing, debt and structured financing and financial advisory services as well as National Equities Exchange and Quotations ("NEEQ") services.

— Asset Management segment provides a wide range of asset management products and services, including collective asset management schemes, targeted asset management schemes and specialized asset management schemes.

— Proprietary Trading segment engages in trading of equities, funds, derivatives and other financial products including bonds, currencies products and other fixed-income products, using the CISC Group's own capital.

— Others segment mainly represents head office operations, institutional sales and trading services, over-the-counter business, private equity services, alternative investments and Hong Kong business.

(a) **Segment results**

| | Year ended 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Brokerage | Investment Banking | Asset Management | Proprietary Trading | Others | Total |
| Segment revenue | | | | | | |
| - Fee and commission income | 2,137,261,669 | 138,144,468 | 69,106,865 | — | 151,633,505 | 2,496,146,507 |
| - Interest income | 874,865,165 | 43,465 | 1,955,474 | 15,481,031 | 73,962,783 | 966,307,918 |
| - Investment income | 4,944,974 | — | 36,459,416 | 96,292,640 | 44,490,703 | 182,187,733 |
| - Other income and gains | 9,247,053 | 2,960,356 | — | 300,000 | 6,144,234 | 18,651,643 |
| Segment revenue and other income | 3,026,318,861 | 141,148,289 | 107,521,755 | 112,073,671 | 276,231,225 | 3,663,293,801 |
| Segment expenses | (1,857,411,050) | (191,943,249) | (59,446,697) | (49,593,784) | (465,936,382) | (2,624,331,162) |
| Segment operating profit/(loss) | 1,168,907,811 | (50,794,960) | 48,075,058 | 62,479,887 | (189,705,157) | 1,038,962,639 |
| Share of losses of associates | — | — | — | — | (998,815) | (998,815) |
| Profit/(loss) before income tax | 1,168,907,811 | (50,794,960) | 48,075,058 | 62,479,887 | (190,703,972) | 1,037,963,824 |
| Interest expenses | (210,736,732) | — | (26,068,555) | (24,561,100) | (55,298) | (261,421,685) |
| Depreciation and amortization expenses | (78,399,533) | (2,589,242) | (886,287) | (565,912) | (30,589,401) | (113,030,375) |
| Reversal of/(provision for) impairment losses | 8,368,386 | (3,254) | 1,500 | (38,604) | 253,067 | 8,581,095 |

| | Year ended 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Brokerage | Investment Banking | Asset Management | Proprietary Trading | Others | Total |
| Segment revenue | | | | | | |
| - Fee and commission income | 2,886,448,331 | 170,404,686 | 102,119,397 | — | 213,988,319 | 3,372,960,733 |
| - Interest income | 1,464,370,935 | 33,170 | 990,631 | 3,254,070 | 85,450,623 | 1,554,099,429 |
| - Investment income | 2,869,939 | — | 55,636,433 | 80,795,230 | 55,721,895 | 195,023,497 |
| - Other income and gains | 21,755,150 | 2,573,235 | — | — | 3,048,602 | 27,376,987 |
| Segment revenue and other income | 4,375,444,355 | 173,011,091 | 158,746,461 | 84,049,300 | 358,209,439 | 5,149,460,646 |
| Segment expenses | (2,538,289,946) | (222,813,285) | (68,086,429) | (83,327,004) | (549,006,192) | (3,461,522,856) |
| Segment operating profit/(loss) | 1,837,154,409 | (49,802,194) | 90,660,032 | 722,296 | (190,796,753) | 1,687,937,790 |
| Share of losses of associates | — | — | — | — | (1,302,425) | (1,302,425) |
| Profit/(loss) before income tax | 1,837,154,409 | (49,802,194) | 90,660,032 | 722,296 | (192,099,178) | 1,686,635,365 |
| Interest expenses | (593,995,409) | — | (33,240,929) | (58,151,113) | (4,156,396) | (689,543,847) |
| Depreciation and amortization expenses | (67,805,892) | (2,718,957) | (1,102,572) | (431,340) | (43,222,535) | (115,281,296) |
| (Provision for)/reversal of impairment losses | (1,602,559) | (157,963) | (5,504) | 14,504 | (84,390) | (1,835,912) |

| | Year ended 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Brokerage | Investment Banking | Asset Management | Proprietary Trading | Others | Total |
| Segment revenue | | | | | | |
| - Fee and commission income | 7,045,187,756 | 580,215,075 | 186,325,057 | — | 394,213,576 | 8,205,941,464 |
| - Interest income | 3,569,146,869 | 58,458 | 905,474 | 19,673,904 | 188,653,793 | 3,778,438,498 |
| - Investment income | 2,698,589 | — | 70,313,145 | 232,772,871 | 177,399,956 | 483,184,561 |
| - Other income and gains | 10,863,940 | 2,804,563 | — | — | 653,026 | 14,321,529 |
| Segment revenue and other income | 10,627,897,154 | 583,078,096 | 257,543,676 | 252,446,775 | 760,920,351 | 12,481,886,052 |
| Segment expenses | (5,700,961,997) | (384,234,799) | (110,862,442) | (181,793,758) | (1,219,206,380) | (7,597,059,376) |
| Segment operating profit/(loss) | 4,926,935,157 | 198,843,297 | 146,681,234 | 70,653,017 | (458,286,029) | 4,884,826,676 |
| Share of profits of associates | — | — | — | — | 758,342 | 758,342 |
| Profit/(loss) before income tax | 4,926,935,157 | 198,843,297 | 146,681,234 | 70,653,017 | (457,527,687) | 4,885,585,018 |
| Interest expenses | (2,102,645,749) | — | (45,925,480) | (138,355,141) | (21,130,454) | (2,308,056,824) |
| Depreciation and amortization expenses | (65,489,053) | (3,029,883) | (1,222,785) | (508,335) | (48,195,403) | (118,445,459) |
| (Provision for)/reversal of impairment losses | (1,595,143) | (2,259) | 3,542 | (5,920) | (7,711,049) | (9,310,829) |

| | Six months ended 30 June 2015 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Brokerage | Investment Banking | Asset Management | Proprietary Trading | Others | Total |
| Segment revenue | | | | | | |
| - Fee and commission income | 4,149,664,600 | 393,470,434 | 83,551,596 | — | 213,175,155 | 4,839,861,785 |
| - Interest income | 1,871,927,310 | 21,307 | 371,672 | 8,724,134 | 54,203,164 | 1,935,247,587 |
| - Investment income | 877,895 | — | 78,966,393 | 94,057,796 | 174,198,654 | 348,100,738 |
| - Other income and gains | 6,555,630 | 50 | — | — | 1,787,057 | 8,342,737 |
| Segment revenue and other income | 6,029,025,435 | 393,491,791 | 162,889,661 | 102,781,930 | 443,364,030 | 7,131,552,847 |
| Segment expenses | (2,965,116,770) | (222,826,713) | (70,800,408) | (82,299,974) | (507,757,360) | (3,848,801,225) |
| Segment operating profit/(loss) | 3,063,908,665 | 170,665,078 | 92,089,253 | 20,481,956 | (64,393,330) | 3,282,751,622 |
| Share of losses of associates | — | — | — | — | (484,757) | (484,757) |
| Profit/(loss) before income tax | 3,063,908,665 | 170,665,078 | 92,089,253 | 20,481,956 | (64,878,087) | 3,282,266,865 |
| Interest expenses | (1,041,878,028) | — | (43,937,496) | (64,105,758) | (8,026,591) | (1,157,947,873) |
| Depreciation and amortization expenses | (33,760,234) | (1,552,982) | (584,795) | (262,720) | (23,089,372) | (59,250,103) |
| (Provision for)/reversal of impairment losses | (190,952) | 18,643 | (3,625) | (11,029) | 344,902 | 157,939 |

| | Six months ended 30 June 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Brokerage | Investment Banking | Asset Management | Proprietary Trading | Others | Total |
| Segment revenue | | | | | | |
| - Fee and commission income | 1,406,287,892 | 359,067,754 | 85,294,766 | — | 125,048,787 | 1,975,699,199 |
| - Interest income | 1,199,100,792 | 33,923 | 83,614,004 | 7,845,220 | 131,993,418 | 1,422,587,357 |
| - Investment income | (33,534) | — | (27,875,141) | 45,948,903 | 50,223,485 | 68,263,713 |
| - Other income and gains | 4,801,865 | 486,314 | 944 | — | 3,072,637 | 8,361,760 |
| Segment revenue and other income | 2,610,157,015 | 359,587,991 | 141,034,573 | 53,794,123 | 310,338,327 | 3,474,912,029 |
| Segment expenses | (1,669,869,668) | (176,623,605) | (72,023,570) | (146,543,370) | (355,196,159) | (2,420,256,372) |
| Segment operating profit/(loss) | 940,287,347 | 182,964,386 | 69,011,003 | (92,749,247) | (44,857,832) | 1,054,655,657 |
| Share of losses of associates | — | — | — | — | (1,635,391) | (1,635,391) |
| Profit/(loss) before income tax | 940,287,347 | 182,964,386 | 69,011,003 | (92,749,247) | (46,493,223) | 1,053,020,266 |
| Interest expenses | (672,571,927) | (6,825) | (50,795,900) | (133,392,187) | (22,362,701) | (879,129,540) |
| Depreciation and amortization expenses | (29,413,010) | (1,119,635) | (861,658) | (108,478) | (29,343,540) | (60,846,321) |
| (Provision for)/reversal of impairment losses | (766,363) | 400 | (1,171) | 2,545 | 1,250,034 | 485,445 |

(b) **Geographical information**

The following table sets out the CISC Group's operating income from external clients and the CISC Group's non-current assets (excluding financial instruments, deferred tax assets, same as below) in terms of geographical locations. The geographical locations of the operating income from external clients are identified based on the locations of the clients to whom the services are rendered. The geographical locations of the non-current assets are identified based on the locations where the fixed assets are located or the intangible assets are allocated or the associates and joint ventures operate.

| | Revenues and other income from external customers | | | | |
|---|---|---|---|---|---|
| | Year ended 31 December | | | Six months ended 30 June | |
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | Unaudited | |
| Mainland China | 3,647,518,333 | 5,087,859,554 | 12,365,047,068 | 7,072,598,040 | 3,434,911,104 |
| Overseas | 15,775,468 | 61,601,092 | 116,838,984 | 58,954,807 | 40,000,925 |
| Total | 3,663,293,801 | 5,149,460,646 | 12,481,886,052 | 7,131,552,847 | 3,474,912,029 |

| | Non-current assets | | | |
|---|---|---|---|---|
| | At 31 December | | | At 30 June |
| | 2013 | 2014 | 2015 | 2016 |
| Mainland China | 1,734,204,009 | 1,759,025,518 | 1,409,525,465 | 1,231,543,381 |
| Overseas | 7,292,372 | 11,753,700 | 12,666,186 | 10,569,013 |
| Total | 1,741,496,381 | 1,770,779,218 | 1,422,191,651 | 1,242,112,394 |

| | Non-current assets | | | |
|---|---|---|---|---|
| | At 31 December | | | At 30 June |
| | 2013 | 2014 | 2015 | 2016 |
| Total non-current assets for segment | 1,888,105,181 | 1,917,388,018 | 1,568,800,451 | 1,657,185,194 |
| Elimination of inter-segment non-current assets | (146,608,800) | (146,608,800) | (146,608,800) | (415,072,800) |
| Total | 1,741,496,381 | 1,770,779,218 | 1,422,191,651 | 1,242,112,394 |

(c) **Major clients**

The CISC Group's customer base is diversified and no customer had transactions which exceeded 10% of the CISC Group's revenue for the Relevant Periods.

**55 FAIR VALUE INFORMATION**

The CISC Group adopts the following methods and assumptions when evaluating fair values:

(i) Financial assets including cash and bank balances, cash held on behalf of brokerage clients, reverse REPOs and financial liabilities including placements from financial institutions and REPOs are mainly instruments with floating interest rates or short-term financing. Accordingly, their carrying amounts approximate the fair values.

(ii) Financial assets at fair value through profit or loss, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active markets, the CISC Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the CISC Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.

(iii) The fair values of short-term and long-term debt securities issued are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the CISC Group refers to the yield of financial instruments with similar characteristics such as similar credit risk and maturity, to estimate the fair values using pricing models or discounted cash flow. The fair values of long-term debt securities issued are disclosed in Note 46. The carrying amounts of short-term debt securities issued approximate to their fair values.

(iv) Accounts receivable from margin clients and accounts payable to brokerage clients are due mainly within one year. Accordingly, the carrying amounts approximate the fair values.

(a) **Financial assets and liabilities measured at fair value**

The CISC Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

— Level I valuations: Fair value measured using only Level I inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

— Level II valuations: Fair value measured using Level II inputs i.e. observable inputs which fail to meet Level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level III valuations: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyzes financial instruments measured at fair value at the end of the Relevant Periods, by the level in the fair value hierarchy into which the fair value measurement is categorize:

| | At 31 December 2013 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Equity investments | 98,296,861 | 3,493,275 | — | 101,790,136 |
| - Debt securities | 80,050,199 | 1,576,298,238 | — | 1,656,348,437 |
| - Funds | 18,447,896 | 212,364,721 | — | 230,812,617 |
| - Wealth Management products | — | 212,366,904 | — | 212,366,904 |
| - Asset management schemes | — | 15,819,549 | — | 15,819,549 |
| Available-for-sale financial assets | | | | |
| - Equity investments | 50,185,123 | 564,298 | 157,360,001 | 208,109,422 |
| - Funds | — | 200,521,878 | — | 200,521,878 |
| - Trust schemes | — | — | 178,780,000 | 178,780,000 |
| - Asset management schemes | — | 44,303,662 | — | 44,303,662 |
| - Wealth Management products | — | 4,012,931 | — | 4,012,931 |
| Total | 246,980,079 | 2,269,745,456 | 336,140,001 | 2,852,865,536 |

| | At 31 December 2014 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Equity investments | 55,489,111 | 3,432,648 | 14,477,180 | 73,398,939 |
| - Debt securities | 108,799,057 | 1,625,813,740 | — | 1,734,612,797 |
| - Funds | 4,000,000 | 520,427,066 | — | 524,427,066 |
| Available-for-sale financial assets | | | | |
| - Equity investments | 76,460,198 | 972,388 | 141,392,071 | 218,824,657 |
| - Funds | 76,766,332 | — | — | 76,766,332 |
| - Trust schemes | — | — | 10,000,000 | 10,000,000 |
| - Asset management schemes | — | 34,736,856 | — | 34,736,856 |
| - Wealth management products | — | 191,839,658 | — | 191,839,658 |
| Total | 321,514,698 | 2,377,222,356 | 165,869,251 | 2,864,606,305 |

| | At 31 December 2015 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Equity investments | 167,410,725 | 75,697,190 | 223,747,568 | 466,855,483 |
| - Debt securities | 980,958,975 | 3,979,985,700 | — | 4,960,944,675 |
| - Funds | 8,621,100 | 955,590,180 | — | 964,211,280 |
| Available-for-sale financial assets | | | | |
| - Equity investments | 4,650,316 | 317,042,516 | 138,865,243 | 460,558,075 |
| - Funds | 345,607 | — | — | 345,607 |
| - Asset management schemes | — | 2,670,726,346 | — | 2,670,726,346 |
| Total | 1,161,986,723 | 7,999,041,932 | 362,612,811 | 9,523,641,466 |

| | At 30 June 2016 | | | |
|---|---|---|---|---|
| | Level I | Level II | Level III | Total |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Equity investments | 154,585,503 | 46,623,345 | 503,727,805 | 704,936,653 |
| - Debt securities | 832,094,458 | 5,272,298,964 | 200,000,000 | 6,304,393,422 |
| - Funds | 31,033,136 | 948,953,986 | — | 979,987,122 |
| Available-for-sale financial assets | | | | |
| - Equity investments | 2,327,573 | 301,434,142 | 136,187,637 | 439,949,352 |
| - Funds | 33,128 | — | — | 33,128 |
| - Asset management schemes | — | 2,780,769,472 | — | 2,780,769,472 |
| - Wealth management products | — | 296,717,689 | — | 296,717,689 |
| Total | 1,020,073,798 | 9,646,797,598 | 839,915,442 | 11,506,786,838 |

(i) For the six months ended 30 June 2016, investment in less active stocks listed in NEEQ which were classified as financial assets at fair value through profit or loss of the CISC Group with the carrying amount of RMB84,601,213 were transferred from Level I to Level II as the quoted prices of these stocks were no longer regularly available.

There were no other significant transfer between Level I and Level II of the fair value hierarchy.

(ii) Information about Level III fair value measurements

As at 31 December 2013, 2014, 2015 and 30 June 2016, it is estimated that the sensitivity of the CISC Group's profit or loss and other comprehensive income to the fluctuation of parameters used in Level III fair value measurements is not significant.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|
| At 1 January 2013 | — | 212,360,001 | 212,360,001 |
| Gains or losses for the year | — | — | — |
| Changes in fair value recognized in other comprehensive income | — | — | — |
| Purchases | — | 178,780,000 | 178,780,000 |
| Sales and settlements | — | (55,000,000) | (55,000,000) |
| Transfer into Level III | — | — | — |
| Transfer out of Level III | — | — | — |
| At 31 December 2013 | — | 336,140,001 | 336,140,001 |
| Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period | — | — | — |

| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|
| At 1 January 2014 | — | 336,140,001 | 336,140,001 |
| Gains or losses for the year | 3,640,070 | 12,480,000 | 16,120,070 |
| Changes in fair value recognized in other comprehensive income | — | — | — |
| Purchases | 10,837,110 | 24,032,070 | 34,869,180 |
| Sales and settlements | — | (221,260,000) | (221,260,000) |
| Transfer into Level III | — | — | — |
| Transfer out of Level III | — | — | — |
| At 31 December 2014 | 14,477,180 | 151,392,071 | 165,869,251 |
| Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period | 3,640,070 | — | 3,640,070 |

| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|
| At 1 January 2015 | 14,477,180 | 151,392,071 | 165,869,251 |
| Gains or losses for the year | 83,670,294 | — | 83,670,294 |
| Changes in fair value recognized in other comprehensive income | — | 1,019,473 | 1,019,473 |
| Purchases | 229,834,754 | 30,727,975 | 260,562,729 |
| Sales and settlements | (93,579,840) | (20,914,276) | (114,494,116) |
| Transfer into Level III | — | — | — |
| Transfer out of Level III | (10,654,820) | (23,360,000) | (34,014,820) |
| At 31 December 2015 | 223,747,568 | 138,865,243 | 362,612,811 |
| Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period | 55,236,959 | — | 55,236,959 |

| | Financial assets at fair value through profit or loss | Available-for-sale financial assets | Total |
|---|---|---|---|
| At 1 January 2016 | 223,747,568 | 138,865,243 | 362,612,811 |
| Gains or losses for the period | 40,691,760 | — | 40,691,760 |
| Changes in fair value recognized in other comprehensive income | — | (2,677,606) | (2,677,606) |
| Purchases | 503,744,704 | — | 503,744,704 |
| Sales and settlements | (157,999,638) | — | (157,999,638) |
| Transfer into Level III | 99,673,121 | — | 99,673,121 |
| Transfer out of Level III | (6,129,710) | — | (6,129,710) |
| At 30 June 2016 | 703,727,805 | 136,187,637 | 839,915,442 |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period | 18,001,931 | — | 18,001,931 |

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

| Financial assets | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|---|---|---|---|---|
| Unlisted equity investments ....... | Level III | Market comparable companies | Discount for lack of marketability | The lower the discount rate, the higher the fair value |
| Unlisted debts....... | Level III | Discounted cash flows models | Risk adjusted discount rates | The lower the risk adjusted discount rate, the higher the fair value |

(b) **Fair value of financial assets and liabilities carried at other than fair value**

The fair values of held-to-maturity investments issued have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of issuers, which are classified as Level II categories and similar to the investments' book values.

The fair values of long-term debt securities issued have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of CISC, which are classified as Level II categories and disclosed in Note 46.

Except for the above, the directors of CISC consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the consolidated statements of financial position of the CISC Group approximate their fair values.

**56 FINANCIAL RISK MANAGEMENT**

The CISC Group monitors and controls key exposures to the credit risk, market risk, liquidity risk and operational risk from its use of financial instruments.

(a) **Credit risk**

Credit risk represents the potential loss that may arise from the failure of counterparties, clients, intermediary institutions, bond issuers or other business associates to meet their contracted obligation to the CISC Group.

Currently, the CISC Group's exposure to credit risk arises from: (1) direct credit risk from debt borrowers (including borrowers in margin financing and securities lending business) or bond issuers' default or bankruptcy, including the loss due to intermediary institutions such as brokers or custodian banks. The risk exposure is the total value of the debt outstanding; (2) counterparty credit risk from a counterparty's default on the over-the-counter derivative transactions, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives; (3) settlement risk from a business associate's failure in delivery of fund or securities when the CISC Group has fulfilled its delivery obligation.

To mitigate direct credit risk, the CISC Group has set up investment criteria and limits based on bonds variety, credit ratings and issuers. For margin financing and securities lending and reverse REPOs, the CISC Group undertakes various means to mitigate the direct credit risk, including holding collaterals from clients, reviewing and setting client trading limits, managing the underlying securities and collaterals and their conversion ratios, real-time and day-end monitoring, executing margin calls and forced liquidations, and undertaking recourse actions.

(i) **Maximum exposure to credit risk of the CISC Group without taking into account of any collateral or other credit enhancements**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Refundable deposits | 616,784,468 | 658,150,449 | 298,250,086 | 163,243,206 |
| Financial assets at fair value through profit or loss | 2,081,080,062 | 2,255,039,863 | 5,916,534,855 | 7,242,802,546 |
| Derivative financial assets | — | — | — | — |
| Reverse REPOs | 823,443,366 | 914,350,230 | 1,800,306,682 | 5,716,541,561 |
| Receivable from margin clients | 7,244,532,804 | 22,265,902,628 | 25,070,317,998 | 17,628,951,450 |
| Cash held on behalf of brokerage clients | 15,482,805,261 | 31,477,404,924 | 48,184,863,755 | 40,195,573,203 |
| Bank balances | 2,608,738,032 | 5,253,299,410 | 9,077,881,068 | 6,200,464,209 |
| Accounts receivable | 149,237,354 | 367,798,711 | 196,509,817 | 252,710,536 |
| Held-to-maturity investments | 310,393,109 | 102,907,037 | 72,266,618 | 70,889,372 |
| Available-for-sale financial assets | 182,792,931 | 201,839,658 | — | 296,717,689 |
| Interest receivable | 185,251,555 | 246,387,578 | 653,407,143 | 937,110,895 |
| Others | 108,861,260 | 119,801,922 | 195,893,064 | 213,244,393 |
| Total maximum credit risk exposure | 29,793,920,202 | 63,862,882,410 | 91,466,231,086 | 78,918,249,060 |

(ii) **Risk concentrations**

The CISC Group's maximum credit risk exposure without taking into account of any collateral and other credit enhancements, as categorized by geographical area:

| | By geographical area | | |
|---|---|---|---|
| | Mainland China | Outside Mainland China | Total |
| 31 December 2013 | | | |
| Refundable deposits | 615,408,926 | 1,375,542 | 616,784,468 |
| Financial assets at fair value through profit or loss | 2,081,080,062 | — | 2,081,080,062 |
| Reverse REPOs | 823,443,366 | — | 823,443,366 |
| Receivable from margin clients | 7,240,548,728 | 3,984,076 | 7,244,532,804 |
| Cash held on behalf of brokerage clients | 15,392,480,549 | 90,324,712 | 15,482,805,261 |
| Cash and Bank balances | 2,530,715,785 | 78,022,247 | 2,608,738,032 |
| Accounts receivable | 124,652,997 | 24,584,357 | 149,237,354 |
| Held-to-maturity investments | 310,393,109 | — | 310,393,109 |
| Available-for-sale financial assets | 182,792,931 | — | 182,792,931 |
| Interest receivable | 185,251,555 | — | 185,251,555 |
| Others | 103,511,910 | 5,349,350 | 108,861,260 |
| Total maximum credit risk exposure | 29,590,279,918 | 203,640,284 | 29,793,920,202 |

| | By geographical area | | |
|---|---|---|---|
| | Mainland China | Outside Mainland China | Total |
| 31 December 2014 | | | |
| Refundable deposits | 653,752,763 | 4,397,686 | 658,150,449 |
| Financial assets at fair value through profit or loss | 2,252,090,027 | 2,949,836 | 2,255,039,863 |
| Reverse REPOs | 914,350,230 | — | 914,350,230 |
| Receivable from margin clients | 22,023,974,036 | 241,928,592 | 22,265,902,628 |
| Cash held on behalf of brokerage clients | 30,845,233,455 | 632,171,469 | 31,477,404,924 |
| Cash and Bank balances | 4,944,283,158 | 309,016,252 | 5,253,299,410 |
| Accounts receivable | 138,528,475 | 229,270,236 | 367,798,711 |
| Held-to-maturity investments | 102,907,037 | — | 102,907,037 |
| Available-for-sale financial assets | 201,839,658 | — | 201,839,658 |
| Interest receivable | 246,387,578 | — | 246,387,578 |
| Others | 111,559,095 | 8,242,827 | 119,801,922 |
| Total maximum credit risk exposure | 62,434,905,512 | 1,427,976,898 | 63,862,882,410 |

| | By geographical area | | |
|---|---|---|---|
| | Mainland China | Outside Mainland China | Total |
| 31 December 2015 | | | |
| Refundable deposits | 292,798,617 | 5,451,469 | 298,250,086 |
| Financial assets at fair value through profit or loss | 5,909,994,494 | 6,540,361 | 5,916,534,855 |
| Reverse REPOs | 1,800,306,682 | — | 1,800,306,682 |
| Receivable from margin clients | 24,730,346,780 | 339,971,218 | 25,070,317,998 |
| Cash held on behalf of brokerage clients | 47,188,302,269 | 996,561,486 | 48,184,863,755 |
| Bank balances | 8,855,975,125 | 221,905,943 | 9,077,881,068 |
| Accounts receivable | 103,263,661 | 93,246,156 | 196,509,817 |
| Held-to-maturity investments | 72,266,618 | — | 72,266,618 |
| Available-for-sale financial assets | — | — | — |
| Interest receivable | 653,407,143 | — | 653,407,143 |
| Others | 192,170,107 | 3,722,957 | 195,893,064 |
| Total maximum credit risk exposure | 89,798,831,496 | 1,667,399,590 | 91,466,231,086 |

| | By geographical area | | |
|---|---|---|---|
| | Mainland China | Outside Mainland China | Total |
| 30 June 2016 | | | |
| Refundable deposits | 158,640,723 | 4,602,483 | 163,243,206 |
| Financial assets at fair value through profit or loss | 7,242,802,546 | — | 7,242,802,546 |
| Reverse REPOs | 5,716,541,561 | — | 5,716,541,561 |
| Receivable from margin clients | 17,304,500,069 | 324,451,381 | 17,628,951,450 |
| Cash held on behalf of brokerage clients | 39,433,242,792 | 762,330,411 | 40,195,573,203 |
| Bank balances | 5,920,861,992 | 279,602,217 | 6,200,464,209 |
| Accounts receivable | 106,481,168 | 146,229,368 | 252,710,536 |
| Held-to-maturity investments | 70,889,372 | — | 70,889,372 |
| Available-for-sale financial assets | 296,717,689 | — | 296,717,689 |
| Interest receivable | 937,110,895 | — | 937,110,895 |
| Others | 210,234,335 | 3,010,058 | 213,244,393 |
| Total maximum credit risk exposure | 77,398,023,142 | 1,520,225,918 | 78,918,249,060 |

(iii) **Credit rating analysis of financial assets**

The CISC Group adopts a credit rating approach in managing credit risk of debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amount of debt securities investments analyzed by the rating agency designations as at the end of the Relevant Periods are as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Other comprehensive rating | | | | |
| - AAA | 71,022,091 | 110,670,110 | 433,294,306 | 1,725,072,915 |
| - From AA- to AA+ | 614,326,191 | 880,635,741 | 2,241,031,336 | 3,440,717,538 |
| - From A- to A+ | 584,473,240 | 630,349,530 | 738,794,140 | 6,094,503 |
| - Below A- | — | — | — | 59,483,516 |
| Sub-total | 1,269,821,522 | 1,621,655,381 | 3,413,119,782 | 5,231,368,472 |
| Non-rated (Note) | 696,920,024 | 215,864,453 | 1,620,091,511 | 1,143,914,322 |
| Total | 1,966,741,546 | 1,837,519,834 | 5,033,211,293 | 6,375,282,794 |

*Note:* Non-rated financial assets mainly represent debts instruments and trading securities issued by the MOF, the PBOC, and other policy banks, which are creditworthy issuers in the market but are not rated by independent rating agencies.

(b) **Liquidity risk**

Liquidity risk arises when the CISC Group, despite being solvent at the time, cannot obtain sufficient funding in a timely basis or at a reasonable cost to finance the expansion of its assets or to pay off its obligation when it falls due.

The CISC Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the undiscounted contractual cash flows of the CISC Group's non-derivative and derivative financial liabilities (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the reporting period), categorized by their remaining contractual maturities at the end of the reporting period calculated based on the earliest date the CISC Group can be required to pay:

| | At 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Overdue/ repayable on demand** | **Within 1 year (inclusive)** | **1 - 5 years (inclusive)** | **More than 5 years** | **Undated** | **Total** |
| Accounts payable to brokerage clients | 15,552,820,291 | — | — | — | — | 15,552,820,291 |
| Placements from financial institutions | — | 2,626,267,014 | — | — | — | 2,626,267,014 |
| REPOs | — | 3,268,048,295 | — | — | — | 3,268,048,295 |
| Short-term debt securities issued | — | 958,229,863 | — | — | — | 958,229,863 |
| Others | 33,436,853 | 2,609,751 | — | — | — | 36,046,604 |
| Total | 15,586,257,144 | 6,855,154,923 | — | — | — | 22,441,412,067 |

| | At 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Overdue/ repayable on demand** | **Within 1 year (inclusive)** | **1 - 5 years (inclusive)** | **More than 5 years** | **Undated** | **Total** |
| Accounts payable to brokerage clients | 31,533,084,356 | — | — | — | — | 31,533,084,356 |
| Placements from financial institutions | — | 3,171,303,011 | — | — | — | 3,171,303,011 |
| REPOs | — | 14,892,655,199 | 3,506,332,877 | — | — | 18,398,988,076 |
| Short-term debt securities issued | — | 952,151,164 | — | — | — | 952,151,164 |
| Long-term debt securities issued | — | — | 529,286,393 | — | — | 529,286,393 |
| Others | 182,961,885 | 247,947,710 | 261,028 | — | — | 431,170,623 |
| Total | 31,716,046,241 | 19,264,057,084 | 4,035,880,298 | — | — | 55,015,983,623 |

| | At 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 - 5 years (inclusive) | More than 5 years | Undated | Total |
| Accounts payable to brokerage clients | 48,378,909,457 | — | — | — | — | 48,378,909,457 |
| Placements from financial institutions | — | 229,189,874 | 315,838,115 | — | — | 545,027,989 |
| REPOs | — | 11,783,411,590 | 7,273,573,671 | — | — | 19,056,985,261 |
| Long-term debt securities issued | — | 2,838,227,492 | 10,592,315,266 | — | — | 13,430,542,758 |
| Others | 223,300,602 | 75,776,940 | — | — | — | 299,077,542 |
| Total | 48,602,210,059 | 14,926,605,896 | 18,181,727,052 | — | — | 81,710,543,007 |

| | At 30 June 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 - 5 years (inclusive) | More than 5 years | Undated | Total |
| Accounts payable to brokerage clients | 40,353,827,723 | — | — | — | — | 40,353,827,723 |
| REPOs | — | 12,014,319,508 | — | — | — | 12,014,319,508 |
| Short-term debt securities issued | — | 86,265,061 | — | — | — | 86,265,061 |
| Long-term debt securities issued | — | 3,185,847,104 | 9,129,443,333 | — | — | 12,315,290,437 |
| Others | 159,185,986 | 84,269,931 | 316,329,298 | — | — | 559,785,215 |
| Total | 40,513,013,709 | 15,370,701,604 | 9,445,772,631 | — | — | 65,329,487,944 |

(c) **Market risk**

Market risk is the risk of loss in the CISC Group's income and value of financial instruments held arising from the adverse market movements such as changes in interest rates, stock prices, and foreign exchange rates. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximize the risk adjusted return. Stress testing is conducted regularly, and the potential movements of risk and operating indicators in a variety of scenarios are calculated.

(i) **Interest rate risk of proprietary trading portfolios**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

For those financial instruments held by the CISC Group which expose the CISC Group to fair value interest rate risk at the end of each of the Relevant Periods, the CISC Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the CISC Group's net profit and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

| | Sensitivity of net profit and equity | | | |
|---|---|---|---|---|
| | At 31 December | | | At 30 June |
| | 2013 | 2014 | 2015 | 2016 |
| Change in basis points | | | | |
| Increase by 50 basis points | 8,040,671 | 11,035,285 | (18,265,704) | (43,332,889) |
| Decrease by 50 basis points or decrease to 0 | (7,857,293) | (10,867,522) | 19,041,130 | 45,126,013 |

The sensitivity analysis is based on the static rate risk profile of the CISC Group's assets and liabilities. The sensitivity analysis measures the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the CISC Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions that:

— The 50 basis points of changes in interest rates at the end of the Relevant Periods apply to all of the CISC Group's debt financial instruments in the next 12 months;

— There is a parallel shift in the yield curve with the changes in interest rate;

— There are no changes to the assets and liabilities portfolios;

— Other variables (including exchange rate) remain unchanged; and

— Risk management measures undertaken by the CISC Group are not considered.

Due to the above assumptions, the actual changes of interest rate and the impact to the CISC Group's net profit and equity might vary from the estimated results of the sensitivity analysis.

(ii) **Currency risk**

Currency risk is the risk arising from the fluctuation of foreign exchange rates. The CISC Group adopts sensitivity analysis to measure currency risk.

Assuming a 10% weakening of the RMB against the USD, the HKD and other currencies at the end of each of the Relevant Periods which would apply to the next 12 months with all other variables unchanged and all risk management measures undertaken by the CISC Group set aside, the CISC Group's net profit or loss and equity would have been affected as follows:

| | | Sensitivity of net profit | | | |
|---|---|---|---|---|---|
| | | At 31 December | | | At 30 June |
| **Currency** | **Changes** | **2013** | **2014** | **2015** | **2016** |
| USD .......................... | 10% | 2,099,890 | 1,898,852 | 2,914,978 | 3,077,401 |
| HKD ......................... | 10% | 623,432 | 899,802 | 1,557,701 | 1,731,754 |

| | | Sensitivity of equity | | | |
|---|---|---|---|---|---|
| | | At 31 December | | | At 30 June |
| **Currency** | **Changes** | **2013** | **2014** | **2015** | **2016** |
| USD........................... | 10% | 2,099,890 | 1,898,852 | 2,914,978 | 3,077,401 |
| HKD .......................... | 10% | 389,515 | 931,932 | 2,036,760 | 2,352,919 |

A 10% strengthening of the RMB against the USD, the HKD and other currencies at the reporting date would have had the equal but opposite effect on the CISC Group's net profit or loss and equity, on the basis that all other variables remain unchanged.

Due to the above assumptions, the actual changes in foreign currency rate and the impact to the CISC Group's net profit or loss and equity might vary from the estimated results of the sensitivity analysis.

## 57 CAPITAL MANAGEMENT

The CISC Group's capital management policy is to maintain an adequate capital base, so as to retain the confidence of the investors, the creditors and the counterparties and to ensure the sound development of future business. The objective of the CISC Group's capital management is to meet legal and regulatory requirements, while maintaining adequate capital and maximize returns. Based on its strategic plan, its business development needs and the tendency in its risk exposure, the CISC Group carries out the forecast, planning and management of its regulatory capital through scenario analysis and stress testing.

The CISC Group calculates its regulatory capital in accordance with relevant regulations applicable in the local jurisdiction which may be significantly different from the regulations in other jurisdictions. CISC calculates net capital in accordance with the Regulations on the Adjustment of the Calculation Standards of Net Capital for Securities Companies (2012 Amendment) (CSRC Announcement [2012] No. 37) issued by the CSRC on 16 November 2012 and other relevant regulations. Net capital refers to net assets after risk adjustments on certain types of assets as defined in the Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures").

In accordance with the Administrative Measures issued by the CSRC, CISC is required to meet the following standards for risk control indicators on a continual basis:

(i) The ratio of net capital divided by the sum of its various risk-weighted capital reserves shall be no less than 100% ("Ratio 1");

(ii) The ratio of net capital divided by net assets shall be no less than 40% ("Ratio 2");

(iii) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");

(iv) The ratio of net assets divided by liabilities shall be no less than 20% ("Ratio 4");

(v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5");

(vi) The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% ("Ratio 6");

*Note:* According to the *Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies*, since 1 October 2016, Ratio 2 and Ratio 4 shall be no less than 20% and 10%, respectively; the minimum level of other ratios remain unchanged.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, CISC maintained the above ratios as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Net Capital (in billions of RMB) | 5.88 | 6.43 | 14.00 | 13.44 |
| Ratio 1 | 741% | 530% | 864% | 723% |
| Ratio 2 | 67% | 64% | 103% | 93% |
| Ratio 3 | 85% | 28% | 42% | 53% |
| Ratio 4 | 127% | 44% | 41% | 57% |
| Ratio 5 | 9% | 4% | 22% | 25% |
| Ratio 6 | 30% | 28% | 39% | 53% |

Similar to CISC, certain subsidiaries of the CISC Group are also subject to capital requirements imposed by their local regulators, including the CSRC, the Hong Kong Securities and Futures Commission, and etc.

The above data is calculated based on the financial information prepared in accordance with PRC GAAP.

## 58 STATEMENTS OF FINANCIAL POSITION OF CISC

| | | At 31 December | | | At 30 June |
|---|---|---|---|---|---|
| | Note | 2013 | 2014 | 2015 | 2016 |
| Non-current assets | | | | | |
| Property and equipment | | 179,667,435 | 182,780,100 | 183,512,472 | 180,790,582 |
| Intangible assets | | 32,185,200 | 31,933,257 | 45,266,786 | 45,820,393 |
| Interest in subsidiaries | 23 | 1,407,733,618 | 1,407,733,618 | 1,407,733,618 | 1,676,197,618 |
| Available-for-sale financial assets | | 96,039,638 | 117,691,570 | 2,649,044,665 | 2,665,188,710 |
| Held-to-maturity investments | | — | 72,435,214 | 72,266,618 | — |
| Refundable deposits | | 619,238,335 | 658,179,543 | 282,655,533 | 148,541,410 |
| Deferred tax assets | | 126,747,861 | 153,488,958 | 364,246,082 | 327,501,226 |
| Reverse REPOs | | 59,164,842 | 47,471,434 | 270,419,699 | 279,508,995 |
| Other non-current assets | | 755,710,600 | 741,538,169 | 731,440,280 | 712,070,280 |
| Total non-current assets | | 3,276,487,529 | 3,413,251,863 | 6,006,585,753 | 6,035,619,214 |
| Current assets | | | | | |
| Accounts receivable | | 70,503,567 | 94,512,376 | 97,285,248 | 100,769,259 |
| Receivable from margin clients | | 7,240,548,728 | 22,023,974,036 | 24,730,346,779 | 17,304,500,070 |
| Available-for-sale financial assets | | 287,547,394 | 196,141,989 | 128,436,549 | 413,518,613 |
| Financial assets at fair value through profit or loss | | 1,649,070,898 | 1,710,230,302 | 5,863,561,519 | 7,734,041,377 |
| Held-to-maturity investments | | 101,180,835 | 30,471,823 | — | 70,889,372 |
| Reverse REPOs | | 752,278,404 | 818,877,346 | 1,223,685,452 | 1,527,542,566 |
| Interest receivable | | 164,506,634 | 218,884,622 | 642,061,692 | 919,137,206 |
| Cash held on behalf of brokerage clients | | 13,810,349,113 | 28,818,923,830 | 45,079,893,602 | 37,330,783,403 |
| Cash and bank balances | | 2,130,412,474 | 4,421,269,114 | 8,351,234,225 | 5,341,031,808 |
| Other current assets | | 41,687,482 | 35,329,998 | 86,894,467 | 371,047,086 |
| Total current assets | | 26,248,085,529 | 58,368,615,436 | 86,203,399,533 | 71,113,260,760 |
| Total assets | | 29,524,573,058 | 61,781,867,299 | 92,209,985,286 | 77,148,879,974 |

| | Note | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 30 June 2016 |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Accounts payable to brokerage clients | | 13,856,549,384 | 28,882,987,370 | 45,262,070,760 | 37,443,230,648 |
| Placements from financial institutions | | 2,570,000,000 | 2,570,000,000 | — | — |
| Short-term debt securities issued | | 950,000,000 | 950,000,000 | — | 85,700,000 |
| REPOs | | 2,675,109,027 | 14,402,150,918 | 11,606,621,000 | 11,766,929,253 |
| Employee benefits payable | | 420,876,028 | 536,221,474 | 1,338,303,300 | 1,088,602,285 |
| Income tax payable | | 64,621,549 | 241,149,155 | 437,419,598 | 111,852,765 |
| Long-term debt securities issued due within one year | | — | — | 2,737,020,238 | 2,873,560,420 |
| Other current liabilities | | 185,983,276 | 397,883,202 | 942,308,969 | 663,664,936 |
| Total current liabilities | | 20,723,139,264 | 47,980,392,119 | 62,323,743,865 | 54,033,540,307 |
| Net current assets | | 5,524,946,265 | 10,388,223,317 | 23,879,655,668 | 17,079,720,453 |
| Total assets less current liabilities | | 8,801,433,794 | 13,801,475,180 | 29,886,241,421 | 23,115,339,667 |
| **Non-current liabilities** | | | | | |
| Long-term debt securities issued | | — | 480,020,000 | 9,277,392,901 | 8,492,099,683 |
| REPOs | | — | 3,200,000,000 | 6,840,000,000 | — |
| Employee benefits payable | | 38,272,279 | 75,994,902 | 134,120,591 | 65,591,721 |
| Deferred tax liabilities | | — | 18,299,957 | 25,619,543 | 15,296,092 |
| Other non-current liabilities | | — | — | — | 167,178,000 |
| Total non-current liabilities | | 38,272,279 | 3,774,314,859 | 16,277,133,035 | 8,740,165,496 |
| Net assets | | 8,763,161,515 | 10,027,160,321 | 13,609,108,386 | 14,375,174,171 |
| **Equity** | | | | | |
| Paid-in capital | | 5,000,000,000 | 5,000,000,000 | 5,000,000,000 | 5,000,000,000 |
| Reserves | | 2,565,546,752 | 2,988,710,566 | 4,256,315,168 | 4,244,902,190 |
| Retained profits | | 1,197,614,763 | 2,038,449,755 | 4,352,793,218 | 5,130,271,981 |
| Total equity | | 8,763,161,515 | 10,027,160,321 | 13,609,108,386 | 14,375,174,171 |

## 59 EVENTS AFTER THE REPORTING DATE

From July to October 2016, CISC has issued beneficiary certificates with a total principal amount of RMB1,187 million. CISC has also redeemed beneficiary certificates with a total principal amount of RMB2,177 million during the same period.

On 9 November 2016, CISC submitted its application to the Shanghai Stock Exchange for the non-public issuance of subordinated bonds of RMB5.0 billion. Subject to the review and approval of the Shanghai Stock Exchange, CISC plans to issue the subordinated bonds by the end of 2016.

## C SUBSEQUENT FINANCIAL STATEMETNS AND DIVIDENDS

No audited financial statements have been prepared by CISC and its subsidiaries in respect of any period subsequent to 30 June 2016. Save as disclosed in the Financial Information, no dividend or distribution has been declared or made by any companies comprising the CISC Group in respect of any period subsequent to 30 June 2016.

Yours faithfully,
**KPMG**
*Certified Public Accountants*
Hong Kong

*The information set forth in this appendix does not form part of the Accountants' Report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix IV to this Circular, and is included herein for illustrative purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the Financial Information of the Group set forth in Appendix III, the section headed "Financial Information" in the Information About CISC in Appendix VI and the Accountants' Report of CISC Group set forth in Appendix IV to this Circular.*

## A. THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of China International Capital Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") has been prepared by the directors of the Company in accordance with Rules 4.29 and 14.69(4)(a)(ii) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purposes of illustrating the effect of the financial information of the Group as if its proposed acquisition of all equity interest in China Investment Securities Corporation Limited (the "**CISC**") and its subsidiaries (collectively the "**CISC Group**", and together with the Group referred to as the "**Enlarged Group**") (the "**Proposed Acquisition**") had been completed on 30 June 2016 for the unaudited pro forma consolidated statement of financial position and 1 January 2015 for the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma financial information was comprised of the unaudited pro forma consolidated statement of financial position as at 30 June 2016 and the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2015 of the Enlarged Group. The pro forma financial information of the Enlarged Group is based upon the interim financial report of the Group for the period ended 30 June 2016 as set out in the Group's 2016 interim report and the consolidated financial statement of the Group for the year ended 31 December 2015 as set out in the Group's 2015 annual report, and adjusted to reflect the effect of the Acquisition.

The unaudited pro forma financial information of the Enlarged Group has been prepared for illustrative purposes and because of its hypothetical nature, it may not give a true picture of the financial position or results of the Group had the Acquisition been completed as at the specified dates or any future date.

**Unaudited pro forma consolidated statement of financial position**
**(Expressed in Renminbi ("RMB"), unless otherwise stated)**

| | At 30 June 2016 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | The Group | The CISC Group | Purchase adjustment | Elimination | Pro forma Enlarged Group |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | |
| **Non-current asset** | | | | | |
| Property and equipment | 183,937,363 | 209,492,614 | 53,937,300 | — | 447,367,277 |
| Intangible assets | 962,068 | 50,735,404 | 105,411,500 | — | 157,108,972 |
| Interest in associates and joint ventures | 486,709,379 | 77,942,686 | — | — | 564,652,065 |
| Available-for-sale financial assets | 675,829,713 | 2,992,077,183 | — | — | 3,667,906,896 |
| Refundable deposits | 804,184,708 | 163,243,206 | — | — | 967,427,914 |
| Deferred tax assets | 428,194,938 | 328,991,977 | — | — | 757,186,915 |
| Goodwill | — | 20,000,000 | 1,388,241,563 | — | 1,408,241,563 |
| Financial assets held under resale agreements ("reverse REPOs") | — | 796,408,995 | — | — | 796,408,995 |
| Other non-current assets | 65,360,646 | 720,698,484 | 633,576,200 | — | 1,419,635,330 |
| **Total non-current assets** | **2,645,178,815** | **5,359,590,549** | **2,181,166,563** | **—** | **10,185,935,927** |
| **Current assets** | | | | | |
| Cash and bank balances | 12,186,769,410 | 6,201,564,740 | — | — | 18,388,334,150 |
| Accounts receivable | 5,759,950,351 | 252,710,536 | — | — | 6,012,660,887 |
| Receivable from margin clients | 2,547,119,336 | 17,628,951,450 | — | — | 20,176,070,786 |
| Available-for-sale financial assets | 858,759,196 | 525,392,458 | — | — | 1,384,151,654 |
| Financial assets at fair value through profit or loss | 57,034,618,669 | 7,989,317,197 | — | — | 65,023,935,866 |
| Derivative financial assets | 2,085,671,243 | — | — | — | 2,085,671,243 |
| Reverse REPOs | 3,263,174,112 | 4,920,132,566 | — | (522,837,552) | 7,660,469,126 |
| Held-to-maturity investments | — | 70,889,372 | — | — | 70,889,372 |
| Interest receivable | 593,979,163 | 937,110,895 | — | — | 1,531,090,058 |
| Cash held on behalf of brokerage clients | 20,523,945,792 | 40,195,573,203 | — | — | 60,719,518,995 |
| Other current assets | 73,167,977 | 473,945,732 | — | — | 547,113,709 |
| **Total current assets** | **104,927,155,249** | **79,195,588,149** | **—** | **(522,837,552)** | **183,599,905,846** |
| **Total assets** | **107,572,334,064** | **84,555,178,698** | **2,181,166,563** | **(522,837,552)** | **193,785,841,773** |

**Unaudited pro forma consolidated statement of financial position (continued)**
**(Expressed in RMB, unless otherwise stated)**

| | At 30 June 2016 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | The Group | The CISC Group | Purchase adjustment | Elimination | Pro forma Enlarged Group |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | |
| **Current liabilities** | | | | | |
| Financial liabilities at fair value through profit or loss | 9,340,828,311 | — | — | — | 9,340,828,311 |
| Derivative financial liabilities | 1,430,831,595 | — | — | — | 1,430,831,595 |
| Accounts payable to brokerage clients | 21,439,355,519 | 40,353,827,723 | — | — | 61,793,183,242 |
| Placements from financial institutions | 6,439,592,000 | 303,418,500 | — | — | 6,743,010,500 |
| Short-term debt securities issued | 4,919,200,877 | 85,700,000 | — | — | 5,004,900,877 |
| Financial assets sold under repurchase agreements ("REPOs") | 15,920,045,282 | 11,766,929,253 | — | (522,837,552) | 27,164,136,983 |
| Employee benefits payable | 1,310,594,049 | 1,103,808,416 | — | — | 2,414,402,465 |
| Income tax payable | 101,601,080 | 117,212,259 | — | — | 218,813,339 |
| Long-term debt securities issued due within one year | 3,000,000,000 | 2,873,560,420 | — | — | 5,873,560,420 |
| Other current liabilities | 20,731,013,725 | 4,315,703,981 | — | — | 25,046,717,706 |
| **Total current liability** | **84,633,062,438** | **60,920,160,552** | **—** | **(522,837,552)** | **145,030,385,438** |
| **Net current assets** | **20,294,092,811** | **18,275,427,597** | **—** | **—** | **38,569,520,408** |
| **Total assets less current liabilities** | **22,939,271,626** | **23,635,018,146** | **2,181,166,563** | **—** | **48,755,456,335** |
| **Non-current liability** | | | | | |
| Non-current employee benefits payable | 522,722,617 | 65,591,721 | — | — | 588,314,338 |
| Long-term debt securities issued | 5,292,601,160 | 8,492,099,683 | — | — | 13,784,700,843 |
| Deferred tax liabilities | 43,156,434 | 86,230,921 | 198,231,250 | — | 327,618,605 |
| Other non-current liabilities | 12,909,022 | 167,178,000 | — | — | 180,087,022 |
| **Total non-current liabilities** | **5,871,389,233** | **8,811,100,325** | **198,231,250** | **—** | **14,880,720,808** |
| **Total liabilities** | **90,504,451,671** | **69,731,260,877** | **198,231,250** | **(522,837,552)** | **159,911,106,246** |
| **Net assets** | **17,067,882,393** | **14,823,917,821** | **1,982,935,313** | **—** | **33,874,735,527** |

**Unaudited pro forma consolidated statement of financial position (continued)**
**(Expressed in RMB, unless otherwise stated)**

| | At 30 June 2016 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | The Group | The CISC Group | Purchase adjustment | Elimination | Pro forma Enlarged Group |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | |
| **Equity** | | | | | |
| Share capital | 2,306,669,000 | 5,000,000,000 | (3,321,538,191) | — | 3,985,130,809 |
| Reserves | 9,163,420,425 | 4,451,394,268 | 10,570,838,923 | — | 24,185,653,616 |
| Other equity instruments | 1,000,000,000 | — | — | — | 1,000,000,000 |
| Retained profits | 4,567,775,797 | 5,268,453,844 | (5,268,453,844) | — | 4,567,775,797 |
| Total equity attributable to shareholders/ equity holders of the Company and holders of other equity instruments | 17,037,865,222 | 14,719,848,112 | 1,980,846,888 | — | 33,738,560,222 |
| Non-controlling Interest | 30,017,171 | 104,069,709 | 2,088,245 | — | 136,175,305 |
| **Total equity** | **17,067,882,393** | **14,823,917,821** | **1,982,935,313** | **—** | **33,874,735,527** |

**Unaudited pro forma consolidated statement of profit or loss**
**(Expressed in RMB, unless otherwise stated)**

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | The Group | The CISC Group | Purchase adjustment | Elimination | Pro forma Enlarged Group |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | |
| **Revenue** | | | | | |
| Fee and commission income | 6,587,816,025 | 8,205,941,464 | — | — | 14,793,757,489 |
| Interest income | 1,020,499,994 | 3,778,438,498 | — | — | 4,798,938,492 |
| Investment income | 1,853,336,139 | 483,184,561 | — | — | 2,336,520,700 |
| **Total revenue** | **9,461,652,158** | **12,467,564,523** | **—** | **—** | **21,929,216,681** |
| Other income and gains | 45,032,477 | 14,321,529 | — | — | 59,354,006 |
| **Total revenue and other income** | **9,506,684,635** | **12,481,886,052** | **—** | **—** | **21,988,570,687** |
| Fee and commission expenses | 419,557,701 | 1,450,742,227 | — | — | 1,870,299,928 |
| Interest expenses | 1,094,781,365 | 2,308,056,824 | — | — | 3,402,838,189 |
| Staff costs | 4,050,985,852 | 2,388,376,670 | — | — | 6,439,362,522 |
| Depreciation and amortization expenses | 51,081,279 | 118,445,459 | 55,651,227 | — | 225,177,965 |
| Business tax and surcharges | 406,279,919 | 552,946,453 | — | — | 959,226,372 |
| Other operating expenses | 963,710,851 | 769,180,914 | — | — | 1,732,891,765 |
| Provision for impairment losses | 3,375,632 | 9,310,829 | — | — | 12,686,461 |
| **Total expenses** | **6,989,772,599** | **7,597,059,376** | **55,651,227** | **—** | **14,642,483,202** |
| **Operating profit** | **2,516,912,036** | **4,884,826,676** | **(55,651,227)** | **—** | **7,346,087,485** |
| Share of profits and losses of associates and joint ventures | 103,665,364 | 758,342 | — | — | 104,423,706 |
| **Profit before income tax** | **2,620,577,400** | **4,885,585,018** | **(55,651,227)** | **—** | **7,450,511,191** |
| Less: Income tax expense | 667,927,437 | 1,240,180,492 | (13,912,807) | — | 1,894,195,122 |
| **Profit for the period** | **1,952,649,963** | **3,645,404,526** | **(41,738,420)** | **—** | **5,556,316,069** |
| **Attributable to:** | | | | | |
| Shareholders/equity holders of the Company and holders of other equity instruments | 1,952,649,963 | 3,639,377,462 | (41,727,169) | — | 5,550,300,256 |
| Non-controlling interests | — | 6,027,064 | (11,251) | — | 6,015,813 |

**Unaudited pro forma consolidated statement of cash flows**
**(Expressed in RMB, unless otherwise stated)**

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | The Group | The CISC Group | Purchase adjustment | Elimination | Pro forma Enlarged Group |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | |
| **Cash flows from operating activities:** | | | | | |
| **Profit before income tax** | 2,620,577,400 | 4,885,585,018 | (55,651,227) | — | 7,450,511,191 |
| Adjustments for: | | | | | |
| Interest expense on debt securities issued and other financing expenses | 440,534,761 | 623,867,396 | — | — | 1,064,402,157 |
| Depreciation and amortization expenses | 51,081,279 | 118,445,459 | 55,651,227 | — | 225,177,965 |
| Provision for impairment losses | 3,375,632 | 9,310,829 | — | — | 12,686,461 |
| Net losses/(gains) on disposal of property, equipment and other assets | 6,166,012 | (1,318,670) | — | — | 4,847,342 |
| Fair value gains on financial instruments at fair value through profit or loss | (26,461,310) | (80,125,847) | — | — | (106,587,157) |
| Foreign exchange gain | (59,877,579) | (2,496,678) | — | — | (62,374,257) |
| Net gains on disposal of investments in financial assets | (92,441,537) | (4,303,752) | — | — | (96,745,289) |
| Dividend income from available-for-sale financial assets, held-to-maturity and share of profit of associates and joint ventures | (116,541,567) | (16,175,269) | — | — | (132,716,836) |
| **Operating cash flows before movements in working capital** | **2,826,413,091** | **5,532,788,486** | **—** | **—** | **8,359,201,577** |

**Unaudited pro forma consolidated statement of cash flows (continued)**
**(Expressed in RMB, unless otherwise stated)**

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | The Group | The CISC | Purchase adjustment | Elimination | Pro forma Enlarged Group |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | |
| **Cash flows from operating activities (continued):** | | | | | |
| Decrease/(increase) in receivables from margin clients | 161,571,430 | (2,804,415,370) | — | — | (2,642,843,940) |
| Increase in accounts receivable, other receivables and prepayments | (853,351,799) | (166,773,202) | — | — | (1,020,125,001) |
| Decrease/(increase) in reverse REPOs | 60,234,810 | (885,956,452) | — | — | (825,721,642) |
| Increase in financial instruments at fair value through profit or loss | (20,907,609,384) | (4,056,639,685) | — | — | (24,964,249,069) |
| Decrease in available-for-sale financial assets | 16,841,306 | 220,212,529 | — | — | 237,053,835 |
| Increase in cash held on behalf of brokerage clients | (13,216,773,085) | (16,707,458,831) | — | — | (29,924,231,916) |
| Increase in restricted bank deposits | (375,325,979) | (20,675,000) | — | — | (396,000,979) |
| (Increase)/decrease in refundable deposits | (192,774,607) | 357,375,673 | — | — | 164,601,066 |
| Increase in accounts payable to brokerage clients | 10,163,787,101 | 16,845,825,101 | — | — | 27,009,612,202 |
| Increase in REPOs | 3,843,250,245 | 844,470,082 | — | — | 4,687,720,327 |
| Increase/(decrease) in other liabilities | 13,629,305,951 | (1,806,759,055) | — | — | 11,822,546,896 |
| **Cash used in operating activities, before tax** | **(4,844,430,920)** | **(2,648,005,724)** | **—** | **—** | **(7,492,436,644)** |
| Income taxes paid | (382,169,980) | (1,238,993,307) | — | — | (1,621,163,287) |
| **Net cash used in operating activities** | **(5,226,600,900)** | **(3,886,999,031)** | **—** | **—** | **(9,113,599,931)** |

**Unaudited pro forma consolidated statement of cash flows (continued)**
**(Expressed in RMB, unless otherwise stated)**

| | Year ended 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | | | Pro forma adjustments | | |
| | The Group *Note 1* | The CISC Group *Note 2* | Purchase adjustment *Note 3* | Elimination *Note 4* | Pro forma Enlarged Group |
| **Cash flows from investing activities:** | | | | | |
| Proceeds from sale of investments | 122,951,135 | 164,102,946 | — | — | 287,054,081 |
| Net gains on disposal of available-for-sale financial assets | 262,597,073 | — | — | — | 262,597,073 |
| Dividends received | 12,876,203 | 7,360,418 | — | — | 20,236,621 |
| (Payment for)/proceeds from disposal of property and equipment | (694,360) | 3,322,748 | — | — | 2,628,388 |
| Proceeds from acquisition of CISC | — | — | 4,933,705,053 | — | 4,933,705,053 |
| Payment for acquisition of investments | (1,067,043,221) | (2,721,847,656) | — | — | (3,788,890,877) |
| Payment for the purchase of property, equipment and other long-term assets | (94,831,996) | (123,314,827) | — | — | (218,146,823) |
| **Net cash (used in)/generated from investing activities** | **(764,145,166)** | **(2,670,376,371)** | **4,933,705,053** | **—** | **1,499,183,516** |
| **Cash flows from financing activities:** | | | | | |
| Net proceeds from issue of share capital | 5,300,309,410 | — | — | — | 5,300,309,410 |
| Cash received from beneficiary certificates issued | 3,470,000,000 | 5,534,590,000 | — | — | 9,004,590,000 |
| Capital contribution from non-controlling interests | — | 55,300,000 | — | — | 55,300,000 |
| Cash received from short-term commercial papers issued | 4,100,000,000 | 1,750,000,000 | — | — | 5,850,000,000 |
| Cash received from subordinated bonds and corporate bonds issued | 2,000,000,000 | 8,488,700,000 | — | — | 10,488,700,000 |
| Cash received from other equity instruments issued | 1,000,000,000 | — | — | — | 1,000,000,000 |
| Cash received from syndication loan and other bank loans | 1,623,400,000 | 297,419,000 | — | — | 1,920,819,000 |
| Repayment of borrowings and securities issued | (6,770,000,000) | (5,596,946,500) | — | — | (12,366,946,500) |
| Cash paid for interest | (352,555,403) | (164,594,062) | — | — | (517,149,465) |
| Cash paid relating to other financing activities | (11,202,668) | (5,616,547) | — | — | (16,819,215) |
| **Net cash generated from financing activities** | 10,359,951,339 | 10,358,851,891 | — | — | 20,718,803,230 |
| Effect of changes in foreign exchange rate | 271,212,046 | 2,496,678 | — | — | 273,708,724 |
| **Net increase in cash and cash equivalents** | **4,640,417,319** | **3,803,973,167** | **4,933,705,053** | **—** | **13,378,095,539** |
| **Cash and cash equivalents at the beginning of the period** | **3,351,782,566** | **4,933,705,053** | **(4,933,705,053)** | **—** | **3,351,782,566** |
| **Cash and cash equivalents at the end of the period** | **7,992,199,885** | **8,737,678,220** | **—** | **—** | **16,729,878,105** |

*Notes:*

1. The unadjusted financial information of the Group as at 30 June 2016 and for the year ended 31 December 2015 is extracted from the interim financial report of the Group for the six months ended 30 June 2016 as set out in the Group's 2016 interim report and the consolidated financial statements of the Group for the year ended 31 December 2015 as set out in the Group's 2015 annual report.
2. The financial information of the CISC Group as at 30 June 2016 and for the year ended 31 December 2015 is extracted from the consolidated financial statements as set out in Appendix IV to this circular.
3. The identifiable assets and liabilities of the CISC Group acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with International Financial Reporting Standard 3, Business Combinations ("**IFRS 3**").

   Purchase adjustments made represent:

   (i) The consolidation entry to eliminate the paid-in capital of CISC and pre-acquisition reserves on consolidation.

   (ii) The recognition of fair value adjustment of identifiable net assets and related tax impact, as well as the goodwill recognition in accordance with the applicable standards under IFRS 3, being illustrated by the table below:

| | **RMB** |
|---|---|
| Fair value of consideration *(Note(iv))* | 16,700,695,000 |
| Net assets acquired | |
| Net assets value of the CISC Group as at 30 June 2016 | 14,823,917,821 |
| Fair value adjustments *(Note(iii))* | 792,925,000 |
| Deferred tax liabilities *(Note(iii))* | (198,231,250) |
| Total net assets acquired | 15,418,611,571 |
| Non-controlling interests in CISC | (106,158,134) |
| Identified assets acquired and liabilities assumed | 15,312,453,437 |
| Goodwill arising on acquisition | 1,388,241,563 |

   (iii) The identifiable assets acquired and the liabilities assumed shall be measured at their acquisition-date fair value, which results in fair value adjustments on property and equipment, intangible assets and other non-current assets held by the CISC Group amounting to RMB53,937,300, RMB105,411,500 and RMB633,576,200 respectively, as well as recognition of the related deferred tax liabilities of RMB198,231,250. For the purpose of the unaudited pro forma financial information, the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed is determined with reference to the valuation results of the CISC Group as at 30 June 2016 issued by the independent valuer.

   The additional depreciation of approximately RMB55,651,227 arising from the fair value adjustments to property and equipment, intangible assets and other non-current assets on a straight-line basis over the estimated useful lives ranged from 3 to 35 years. The adjustments are expected to have a continuing effect on the Enlarged Group.

   For the purpose of the unaudited pro forma financial information, the Directors have assessed whether there is any impairment in respect of the goodwill expected to arise from the Proposed Acquisition with reference to the principles set out International Accounting Standard 36, Impairment of Assets. Based on the Directors' assessment, the Directors consider that there is no impairment indicator on the goodwill with assumed value set out above.

(iv) The consideration is RMB16,700,695,000 and it will be satisfied by issuing 1,678,461,809 new shares ("**Consideration Shares**"). For the purpose of this Unaudited Pro Forma Financial Information, the fair value of each Consideration Share is deemed to be RMB9.95 per share (equivalent to approximately HK$11.55 per share), being the Issue Price as per the equity transfer agreement dated 4 November 2016 ("**Equity Transfer Agreement**"). Following the issuance of Consideration Shares, the share capital and reserves of the Company will be increased by RMB1,678,461,809 and RMB15,022,233,191 respectively.

(v) Since the fair values of the identifiable assets and liabilities of the CISC Group and the Consideration Shares on the date of completion of the Proposed Acquisition may be substantially different from their fair values used in the preparation of this unaudited pro forma financial information, the actual amounts of assets and liabilities of the CISC Group, increases in share capital and reserves and the resulting goodwill at the date of completion, and depreciation for subsequent periods, could be different from the estimated amounts stated herein.

4. The elimination mainly includes REPOs agreements involving the Group and the CISC Group, and the consequent interest payable and receivable as at 30 June 2016.

5. No adjustment has been made to the pro forma financial information for acquisition-related costs (including fees to legal advisers, financial adviser, reporting accountants, valuer, printer and other expenses) as the directors determined that such costs are insignificant.

6. No adjustment has been made to reflect trading results or other transactions of the Group and the CISC Group entered into subsequent to 30 June 2016 for the unaudited pro forma consolidated statement of financial position and 31 December 2015 for the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated statement of cash flows.

## B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.*

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

5 December 2016

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

**TO THE DIRECTORS OF CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of China International Capital Corporation Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2016 and the unaudited pro forma consolidated profit or loss and other comprehensive income and pro forma consolidated statement of cash flows for the year ended 31 December 2015 and related notes as set out in Part A of Appendix V to the circular dated 5 December 2016 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix V to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of China Investment Securities Corporation Limited (the "**CISC**") (the "**Proposed Acquisition**") on the Group's financial position as at 30 June 2016 and the Group's financial performance and cash flows for the year ended 31 December 2015 as if the Proposed Acquisition had taken place at 30 June 2016 and 1 January 2015, respectively. As part of this process, information about the Group's financial position as at 30 June 2016 has been extracted by the Directors from the interim financial report of the Group for the six months ended 30 June 2016, on which a review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2015 has been extracted by the Directors from the consolidated financial statements of the Company for the year ended 31 December 2015, on which an audit report has been published.

## DIRECTORS' RESPONSIBILITIES FOR THE PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

## OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 June 2016 or 1 January 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**OPINION**

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**
*Certified Public Accountants*

Hong Kong

## 1. RISK FACTORS

*You should carefully consider all of the information in this circular, including the risks and uncertainties described below. These risks and uncertainties could materially adversely affect the business, financial condition and results of operations of the Enlarged Group. The risks and uncertainties described below may not be the only ones that are faced by the Enlarged Group. Additional risks and uncertainties that the Company is not aware of or that the Company currently believes are immaterial may also adversely affect the Enlarged Group's business, financial condition, results of operations and prospects.*

### RISKS RELATING TO THE PROPOSED ACQUISITION

***Completion of the Proposed Acquisition is subject to the fulfilment of conditions precedent and regulatory filing and approval process and there is no assurance that they can be fulfilled and/or the Proposed Acquisition will be completed as contemplated.***

A number of the conditions precedent to completion of the Proposed Acquisition as set forth in the section headed "Letter from the Board" in this circular involve the decisions of third parties, including approvals from the Independent Shareholders at the EGM and the Shareholders' Class Meetings, approvals from relevant regulatory bodies and grant of Whitewash Waiver by the Executive. In addition, there may be delays in regulatory filing and approval process in connection with the Proposed Acquisition. As fulfilment of the conditions precedent and the regulatory filing and approval process are not within the control of the parties involved in the Proposed Acquisition, there is no assurance that they can be fulfilled and/or the Proposed Acquisition will be completed as contemplated.

***The shareholding percentages of the existing Shareholders in the Company will be diluted following the issue of Consideration Shares, and any value enhancement of the Shares as a result of the Proposed Acquisition may not offset the dilutive effect to the existing Shareholders in the Company.***

Pursuant to the Equity Transfer Agreement, the consideration for the Proposed Acquisition will be satisfied by issue of 1,678,461,809 Consideration Shares, which represent approximately 72.8% of the issued share capital of the Company as of the Latest Practicable Date and 42.1% of the issued share capital of the Company as enlarged by the allotment and issue of the new Shares (assuming no placing of new shares to public shareholders). Please refer to the section headed "Letter from the Board — Shareholding Structure of the Parties" in this circular for further details of the shareholding structure of the Company immediately after the completion of the Proposed Acquisition.

As a result, the shareholding percentages of the existing Shareholders in the Company would be diluted when the Company issues the Consideration Shares. Any value enhancement of the Shares as a result of the Proposed Acquisition may not necessarily be reflected in their market price and may not offset the dilutive effect to the Shareholders.

***Due diligence conducted on CISC may not fully reflect the financial and business conditions of CISC, which may adversely affect the general judgment of the Group and lead to additional costs.***

The Group has conducted strict due diligence on CISC. Nevertheless, there is no assurance that the due diligence work is complete and covers all aspects of the financial and business conditions of CISC. The due diligence conducted on CISC may not accurately reveal the risks associated with it at the time of the Proposed Acquisition. The Group may not be in a position to examine whether CISC has obtained all required permits for its businesses, satisfied all permit conditions, or satisfied all other applicable requirements. Moreover, the Group may not be in a position to carry out all follow-up investigations and inspections. Accordingly, in the course of the Proposed Acquisition, specific risks may not be, or might not have been, recognized or evaluated correctly. These circumstances could lead to additional costs and exposure to unanticipated liabilities, which could adversely affect the Group's results of operations.

## RISKS RELATING TO THE INTEGRATION

***The integration process may prove to be more time-consuming and complicated than expected, and the anticipated synergies of the Proposed Acquisition may not be realized.***

Upon completion of the Proposed Acquisition, there will be an integration between the Group and CISC of their respective business operations, including their business lines, employees and IT systems. For example, it is intended that the wealth management business of the Group and the brokerage business of CISC will be merged. It is envisaged that integration will center around upgrading and transforming CISC's brokerage business by adopting market-oriented evaluation and incentive systems, leveraging the Group's product and service expertise and implementing a unified wealth management IT platform. Please refer to the section headed "Synergies and Future Plans of the Proposed Acquisition" for further information. The integration process involves various challenges and may take longer than anticipated, due to the complex nature of the securities industry, and particularly taking into account the differences between the Group and CISC in respect of their respective organizational structures, management strategies, business model and corporate culture. The challenges may include retaining key employees of CISC, diversion of management attention from other important business objectives, maintaining business relationships with current clients, transforming CISC's conventional brokerage services into a comprehensive wealth management business and achieving cultural compatibility and expected synergies. There can be no assurance that the Group will be able to successfully integrate the businesses of CISC into its existing operations. Failure to do so could materially and adversely affect the Enlarged Group's prospects and results of operations.

***The integration of the overlapping businesses may result in a decrease in results of operations of the Enlarged Group.***

The Group and CISC are both engaged in the PRC securities industry and there are partially overlapping businesses and customers within the Enlarged Group. There are differences between the Group and CISC in terms of internal management system and customer services. Upon completion of the Proposed Acquisition, the integration of the overlapping businesses may require the Enlarged Group to consolidate overlapping functions and to reallocate staffing and service capabilities suited to avail of business opportunities. The Enlarged Group may experience a loss of customers during the transition period after the Proposed Acquisition. In addition, failure to achieve the integration of overlapping businesses on a timely basis or at all could result in ineffective operations, a reduced customer base and increased customer concentration, which could materially and adversely affect the Enlarged Group's business and results of operations.

***The integration may carry certain regulatory risks and restrict the development of certain businesses***

As participants in the securities industry, the Company and CISC are both subject to extensive regulatory requirements published by regulatory authorities in jurisdictions where they operate. During the Track Record Period, both the Company and CISC have been in compliance with regulatory requirements in terms of major risk control indicators based on net capital. As the PRC securities industry is evolving, relevant laws, rules and regulations could change from time to time. Therefore, there are uncertainties with respect to the adoption of new laws, rules and regulations as well as enforcement of existing laws applicable to the Enlarged Group. For example, effective from October 1, 2016, the CSRC implemented the amended Risk Control Indicator Measures and certain related implementation measures. This amendment adjusts 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), stipulates a mandatory leverage ratio of no less than 8% and sets up indicators for specific business lines. Under the amended Risk Control Indicator Measures, a securities company shall calculate the various risk control indicators such as net capital, risk coverage ratio, capital leverage ratio, liquidity coverage ratio, net steady fund rate and prepare the calculation form for relevant risk control indicators, according to the relevant requirements of CSRC and under the principals of prudence as well as substance over form. Please refer to the section headed "Regulatory Overview" for further information. Securities companies may need to raise additional capital so that they can meet certain requirements on their capital, leverage and liquidity. Their ability to satisfy risk control and other regulatory requirements is subject to a variety of uncertainties, including but not limited to, their future financial condition, results of operations, cash flows, government regulatory approvals and waivers, changes in regulations relating to capital raising activities, general market conditions for capital raising activities, and other economic and political conditions inside and outside of the PRC. There can be no assurance that the Enlarged Group will be able to satisfy the risk control indicators under the amended Risk Control Indicator Measures or other regulatory requirements or obtain compliance waivers to such requirements. If the Enlarged Group fails to do so, it may be subject to regulatory sanctions or limitations, which could constrain its business expansion capacity, slow down its growth and have a material and adverse effect on its reputation, business and prospects, financial condition and results of operations.

***The use of the "CICC" brand name by CISC and its members may expose the Enlarged Group to reputational risks.***

The Group is operating under the brand name "CICC" and values its brand as one of the key elements to its operations. Upon the Proposed Acquisition, CISC will continue to use its old brand name for a certain period of time, and will start to use the brand name of the Group in a aligned manner following an appropriate transitional period. As the "CICC" brand name may also be used by CISC and its members, if these entities take any action that damages the "CICC" brand name, or any material negative publicity is associated with them, the reputation, business, growth prospects, results of operations and financial condition of the Group may be adversely affected.

## RISKS RELATING TO THE BUSINESS AND INDUSTRY OF CISC

### Risks Relating to the Business of CISC

***The brokerage business of CISC is subject to various risks and there is no assurance that segment revenue and other income from its brokerage business can be sustained.***

Segment revenue and other income from CISC's brokerage business represent a significant portion of its revenue. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its brokerage business amounted to RMB3,026.3 million, RMB4,375.4 million, RMB10,627.9 million and RMB2,610.2 million, respectively, representing 82.6%, 85.0%, 85.1% and 75.1% of its total revenue and other income, respectively. Its brokerage business is significantly affected by external factors, such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates, all of which are beyond its control. For example, due to the highly volatile market conditions in China during the first half of 2016, its brokerage trading volume of stocks and funds decreased by 55.2% for the first half of 2016 compared to the same period in 2015, which resulted in a 56.7% decrease in its fee and commission income from brokerage business in the first half of 2016 compared to the same period in 2015. In addition, due to a substantially lower market demand for margin financing and securities lending business in the first half of 2016, it suffered a decrease by 30.0% in the balance of its margin loans and securities lent from RMB24.7 billion as of December 31, 2015 to RMB17.3 billion as of June 30, 2016, which resulted in a decrease in its interest income from margin financing and securities lending business in the first half of 2016. See "— Risks Relating to the Macro-Environment and Industry of CISC — General economic and market conditions could materially and adversely affect its business."

Market competition is another key factor affecting its brokerage business. Its average brokerage commission rate of stocks and funds was 8.7bps, 7.7bps and 6.1bps in 2013, 2014 and 2015, respectively. Some of its competitors have also actively promoted online brokerage services in recent years, and continued to lower their brokerage commission rates. If an increasing number of its competitors partner with electronic commerce companies seeking to enter and expand the online brokerage business, the brokerage fee and commission rate in the industry may further decrease, which could adversely affect its competitiveness, business, financial condition and results of operations.

***The financial products that CISC distributes may involve high-risk investments, and its failure to identify, fully appreciate or disclose such risks will harm its reputation, client relationships and prospects.***

In addition to its own asset management products, CISC also distributes financial products developed by third-party financial institutions, such as fund management companies, trust companies and commercial banks. As a third-party distributor, it is not liable for any investment loss or default directly derived from the third-party financial products it distributes to its customers. However, it may be subject to client complaints and potential litigation, which could have an adverse effect on its reputation and business. In addition, certain types of these third-party financial products, such as trust schemes and structured OTC products, may have complex structures and involve various risks, including credit, interest, liquidity and other risks. The risk management policies and procedures of CISC may not be fully effective in identifying the risks of these financial products, and its sales employees may fail to fully disclose such risks to its customers, in which case its customers may invest in financial products that are too risky for their risk tolerance and investment preferences, and may suffer significant loss. This may also subject us to client complaints and litigation risks. As a result, its reputation, customer relationships, business and prospects would be materially adversely affected.

***CISC may suffer significant losses from its credit exposures in its capital-based intermediary businesses, futures brokerage business and OTC transactions.***

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from its capital-based intermediary services amounted to RMB457.1 million, RMB987.3 million, RMB2,548.0 million and RMB816.7 million, respectively, representing 12.5%, 19.2%, 20.4% and 23.5% of its total revenue and other income, respectively.

Its capital-based intermediary businesses, including margin financing and securities lending, securities-backed lending and stock repurchases, as well as its futures brokerage and OTC sales and trading, are subject to the risk that a client may fail to perform its payment obligations or that the value of collateral held by CISC to secure the obligations might become inadequate. It also faces credit risks as a counterparty in derivative contracts and other OTC transactions. Any material non-payment or non-performance by a client or counterparty could adversely affect its financial position, results of operations and cash flows. Although it regularly reviews its credit exposure to specific clients or counterparties and to specific industries that it believes may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. It may also fail to receive all relevant information with respect to the credit risks of its clients and counterparties. See “Business—Risk Management—Monitoring and Management of Major Risks—Credit Risk.”

In its capital-based intermediary businesses, it may enforce liquidation of collateral upon clients unable to meet their obligations as scheduled, or whose maintenance margin ratios are lower than its minimum threshold due to fluctuations in market prices of the collateral while failing to replenish the account balance. In its futures brokerage business, CISC requires its clients to maintain a certain account balance for their futures trading. CISC conducts automatic valuations for clients’ account balances on each trading day, and, in the event of insufficient funds in the accounts of clients, it would issue a capital replenishment notice, and execute forced liquidations when necessary. In addition, such forced liquidation mechanism may trigger disputes between clients and itself, which may subject it to significant expenses or litigation risks. Its ability to carry out forced liquidation of client positions may be adversely affected by market volatility. It may be unable to liquidate clients’ positions in a timely manner if the daily price fluctuation limit applies. The suspension of trading of a particular stock may also result in its failure to liquidate client positions in a timely manner.

Furthermore, CISC also conducts OTC trades with its clients as a counterparty to provide them with customized products or services, such as repurchases or resale transactions. Because there is no exchange or clearing agent for these contracts, it will be subject to the credit risk of non-performance of the counterparty.

***The investment banking business of CISC is subject to various risks, which may reduce its underwriting and sponsorship fees, subject it to regulatory penalties, and adversely affect its liquidity.***

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its investment banking business amounted to RMB141.1 million, RMB173.0 million, RMB583.1 million and RMB359.6 million, respectively, representing 3.9%, 3.4%, 4.7% and 10.3% of its total revenue and other income, respectively.

It is subject to certain risks inherent to the investment banking business, primarily related to the uncertainties in regulatory approval. The offering of securities, especially IPOs, and certain types of M&A of listed companies, are subject to a merit-based review and approval process conducted by various regulatory authorities. The result and timing of these reviews are beyond its control, and may cause substantial delays to, or the termination of, securities offerings underwritten by it and M&A advised by it. For example, between October 2012 and December 2013, the CSRC placed a temporary moratorium on all A-share IPO applications in China and, as a result, CISC did not complete any IPO underwriting and sponsorship transactions in China during this period. Although the IPO review resumed in January 2014, the CSRC imposed another moratorium on IPO review from July 4, 2015 to November 21, 2015. There is no assurance that regulatory approvals on securities offerings or M&A will be granted in a timely manner or at all in the future. A significant decline in the approval rate of the securities offerings sponsored by it or M&A advised by it could reduce its revenue from investment banking, as it normally receives most of its fees only after the completion of a transaction.

In addition, when acting as sponsor of IPOs or financial advisor for M&A transactions, it may be subject to regulatory sanctions, fines, penalties, investor compensation or other disciplinary actions or other legal liabilities for conducting inadequate due diligence in connection with an offering or the post-transaction compliance supervision, fraud or misconduct committed by issuers, their legal advisers, accountants or other agents and other sponsors or itself, misstatements and omissions in disclosure documents, or other illegal or improper activities that occurred during the course of the underwriting or advisory process. See "Business—Legal and Regulatory—Regulatory Non-compliances."

The performance of its investment banking business also depends on market conditions. Unfavorable market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten and sponsored by it and M&A advised by it, or may result in fewer financing and M&A activities, which may in turn materially adversely affect its revenue from the investment banking business. In addition, in case it enters into underwriting arrangements with its clients, it may be required to purchase the entire unsubscribed portion for its own account, which may materially adversely affect its liquidity, and may even cause it to incur losses.

Furthermore, as PRC regulatory authorities are considering changes to the regulatory requirements for investment banking business, PRC securities firms are facing increasing challenges in terms of deal execution, client development, pricing and distribution capabilities. If it is unable to adjust its business strategies to meet these new challenges, it may not be able to compete effectively in the securities industry, which could in turn materially adversely affect income from its investment banking business.

***A significant decline in the size of the AUM of CISC, or unsatisfying investment performance, may materially and adversely affect its asset management business.***

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its asset management business amounted to RMB107.5 million, RMB158.7 million, RMB257.5 million and RMB141.0 million, respectively, representing 2.9%, 3.1%, 2.1% and 4.1% of its total revenue and other income, respectively.

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

- Existing clients might withdraw funds from its asset management business, which would result in lower management fees for it;
- Growth of new clients may not be as it planned;
- Clients may request that it lower its fees for asset management services; and
- Its performance fees, which are based on a percentage of investment returns, may decline.

Its asset management fees or market share may decrease due to the increased competition from other securities firms, mutual fund management companies, private fund management companies, insurance companies, trust companies and commercial banks in China. In addition, the recent mutual recognition between PRC and Hong Kong mutual funds may introduce further competition. Market volatility, adverse economic conditions, or the failure to outperform its competitors or the market, may reduce its AUM or affect the performance of the assets or funds it manages, which could adversely affect the amount of management or performance fees it receives.

***The proprietary trading business of CISC is subject to market volatility and its investment decisions.***

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its proprietary trading business amounted to RMB112.1 million, RMB84.0 million, RMB252.4 million and RMB53.8 million, respectively, representing 3.1%, 1.6%, 2.0% and 1.5% of its total revenue and other income, respectively.

CISC conducts trading activities on equity and fixed-income securities for its own accounts, which are subject to market volatility and, therefore, the results of its securities trading activities generally correlate with the performance of the PRC securities markets. For example, partly due to the highly volatile A-share market in the first half of 2016, segment revenue and other income of its proprietary trading business decreased by 47.7% in the first half of 2016 as compared to the same period in 2015. However, the PRC derivatives market currently does not provide sufficient means for it to hedge against volatile trading markets, which may make it difficult for it to effectively reduce its exposure to price fluctuations. In addition, derivatives contracts it enters into expose it to the risks associated with these instruments and their underlying assets, which could result in substantial losses.

The performance of its equity trading service is determined by its investment decisions and judgment based on its assessment of existing and future market conditions. CISC closely monitors the market value and financial performance of its proprietary trading portfolio, and actively adjust such portfolio to allocate assets based on market conditions and internal risk management guidelines. If its decision-making for investments fails, or actual changes in market conditions differ from its projection, or if concentration risk, including risks from holding particular assets or asset classes materializes, its equity trading service may suffer and not achieve the investment returns it anticipates, which would materially adversely affect its business, financial condition and results of operations.

It may be exposed to risks associated with its fixed-income securities, which may also be subject to price fluctuations as a result of changes in the investors' assessment of the issuer's creditworthiness, delinquency and default rates, and other factors, which could adversely affect its financial condition and results of operations. While it has internal policies and procedures to limit such occurrences, these policies and procedures may not be fully effective. In addition, it may not have sufficient access to resources and trading counterparties to effectively implement its trading and investment risk mitigation strategies and techniques. If its trading position becomes overly concentrated in a limited set of assets, asset classes, or a limited number of counterparties, or if it fails to effectively manage its exposure through its risk management policies and procedures, the volatility of any negative impact of adverse credit exposures could be magnified, and as a result it may experience significant financial losses that could materially adversely affect its business, financial condition and results of operations.

***CISC may fail to realize returns from its private equity investments, or even lose part or all of its investments.***

The private equity investment business of CISC generally involves investments in private companies and in private equity funds with its own capital. CISC and its private equity funds aim to earn returns from dividends paid by its portfolio companies and the listing or the disposal of its portfolio companies. To make a sound investment decision, it needs to carefully identify and select a target company based on its business, operations and the industry in which it operates. In general, this selection process involves a systematic analysis and forecast of the target company's profitability and sustainability. However, it may fail to identify fraudulent, inaccurate or misleading information from a target company in the course of its due diligence which may cause it to make unsound investment decisions or overvalue the target company, and there might be material and adverse changes in the target company's business and financial conditions after the completion of the investment which could negatively affect its return on such investments. Equity investments made by its private equity funds may also suffer substantial losses due to market volatility.

The companies it invested in may take longer than expected to become suitable for a listing or sale. As such, its investment period would be longer than it anticipated. If a listing or sale of the portfolio company cannot be achieved for any reason, the realizable value of its investment may be adversely affected. In addition, its ability to exit a private equity investment is also subject to market conditions and it may be forced to exit its investments at undesirable prices, or may not be able to exit at all. If it cannot exit its private equity investments in its anticipated period or at its anticipated prices, its investment returns will be adversely affected.

In addition, CISC and its private equity funds have limited control over the companies in which it has invested. It is subject to the risk that those companies may make business, financial or management decisions with which it does not agree, or that the majority shareholders or the management of the company may take risks or otherwise act in a manner that does not serve its interests. Furthermore, its portfolio companies may fail to abide by their agreements with it, for which it has limited recourse. If any of the foregoing were to occur, the value of its investments could decrease or its investment may fail, in which case its financial condition and results of operations could be adversely affected.

***CISC faces additional risks as it expands its product and service offerings.***

CISC is committed to providing new products and services in order to strengthen its market position in the PRC securities industry and to capture new business opportunities. It expanded its business in recent years to include margin financing and securities lending as well as OTC trading. These new businesses expose it to additional risks, particularly credit risk. See "—Risks Relating to the Business and Industry of CISC—Risks Relating to the Business of CISC—CISC may suffer significant losses from its credit exposures in its capital-based intermediary businesses, futures brokerage business and OTC transactions."

It will continue to expand its product offerings and business as permitted by relevant regulatory authorities and enter into new markets. These activities may expose it to new and increasingly challenging risks, including, but not limited to:

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

- it may be subject to stricter regulatory scrutiny, and increased credit, market, compliance and operational risks;

- it may be unable to hire additional qualified personnel to support the offering of a broader range of products and services;

- its new products and services may not be accepted by its customers or meet its profitability expectations;

- it may be unable to obtain sufficient financing from internal and external sources to support its business expansion; and

- it may not be successful in enhancing is risk management capabilities and IT systems to identify and mitigate the risks associated with these new products and services, new customers and new markets.

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

**Risks Relating to the Macro-Environment and Industry of CISC**

***General economic and market conditions could materially and adversely affect its business.***

The business of CISC is highly dependent on economic and market conditions in China, as a substantial majority of its revenue is derived from the PRC securities markets. Like other businesses operating in the same industry, its business is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in trading volume, and investor confidence. Its business is also subject to general economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability and cost of funding, and interest rates levels.

In the past, China's securities industry and its results of operations were primarily affected by the monetary policies in the PRC and volatility in the PRC securities markets. For example, the A-share stock market in China experienced a surge from fourth quarter of 2014 to the first half of 2015 and set a historical trading volume record in the fourth quarter of 2014 to the first half of 2015. The trading volume in the PRC stock market in the fourth quarter of 2014 was RMB33.5 trillion, representing 45.1% of the aggregate trading volume in the PRC stock market for 2014. In 2015, the trading volume in the PRC stock market was RMB269,953.7 billion, a 242.3% increase compared with 2014. Accordingly, both of the brokerage trading volume and fee and commission income from the brokerage business of the PRC stock market increased significantly in 2015.

However, there is no assurance that such business performance and favorable economic and market conditions will be sustained. In 2015, the A-share market experienced significant fluctuations, especially from mid-June to the end of August. The CSI 300 Index fell by 56.7% from 5,335.1 on June 12, 2015 to 3,025.7 on August 26, 2015. In response to this sudden and significant market decline, the PRC government announced a series of measures to stabilize the stock market and restore investor confidence. These measures had and will continue to have a significant impact on its business. In addition, in order to stabilize the market, various securities firms, including CISC, contributed funds to designated accounts managed by China Securities Finance. Risk and income arising from the investment shall be shared by all securities firms according to the proportion of their respective contribution. CISC made an investment in the funds at a cost of RMB 2,497.1 million in September 2015. It is unclear how China Securities Finance will make investment using the funds contributed and when the investment will be returned. The contribution may result in losses or accounting impairment that materially and adversely affect CISC's financial condition and results of operations. CISC may also make similar contributions in the future on the same or even less favorable terms, and incur losses.

In the first half of 2016, the PRC stock market has been highly volatile and the CSI 300 Index plummeted by 15.5% during this period. As a result, the brokerage trading volume of stocks and funds of CISC decreased by 55.2% as compared to the same period in 2015 and its proprietary trading business also had a segment operating loss before income tax of RMB92.7 million in the first half of 2016. This investment loss is mainly attributable to the volatile A-share stock market and less favorable A-share stock market conditions. See "Financial Information — Summary Segment Results — Proprietary Trading" for more details.

Its businesses, financial condition and results of operations may be adversely affected by general economic and market conditions in many ways, including, among other things:

- Its brokerage business depends on trading volumes and equity market performance. Unfavorable economic and market conditions can adversely affect investor confidence and trading and investment activities, resulting in reduced brokerage fees and commission income.

- Its investment banking business may be adversely affected by market conditions. Unfavorable economic and market conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of investment banking transactions, which may have a material and adverse effect on the revenue of its investment banking business.

- Market volatility and unfavorable market conditions may reduce its AUM, and affect the performance of the assets or funds it manages, which could adversely affect its ability to receive management fees or performance fees.

- It has net long trading positions in various equity and fixed-income securities as part of its proprietary trading and investment business. As a substantial portion of these financial instruments is marked to market, declines in fair values could directly impact its profit and/or shareholders' equity, unless it has effectively hedged its exposures to such declines. Sudden declines and significant volatility in asset values may cause it to incur significant losses.

See "— Risks Relating to the Business and Industry of CISC — Risks Relating to the Business of CISC" for more details.

***The PRC securities industry is highly competitive and the gradual deregulation may cause new market competitors to enter into the market which could adversely affect the businesses and prospects of CISC.***

The PRC securities industry is highly competitive and CISC faces intense competition in most of its business lines.

For its brokerage business, CISC competes primarily with other PRC securities firms in terms of pricing and the range of products and services offered. Currently, there are 125 registered securities firms in the PRC and intense price competition in recent years has led it to reduce its fee and commission rates for securities brokerage. Also see "— Risks Relating to the Business and Industry of CISC — Risks Relating to the Business of CISC — The brokerage business of CISC is subject to various risks and there is no assurance that its brokerage fee and commission income can be sustained."

For its investment banking business, CISC competes primarily with other domestic or Sino-foreign joint venture securities firms as well as other securities operation institutions in terms of brand recognition, product portfolio, marketing and distribution capability, service quality and pricing. Intense competition may result in lower underwriting and advisory fees for its investment banking business. Also see "— Risks Relating to the Business and Industry of CISC — Risks Relating to the Business of CISC — The investment banking business of CISC is subject to various risks, which may reduce its underwriting and sponsorship fees, subject it to regulatory penalties, and adversely affect its liquidity."

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

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

Meanwhile, the gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC's financial industry may cause new competitors to enter into the securities industry, or allow its current competitors to expand the scope of their business into new business lines. According to a statement made by the CSRC on March 6, 2015, the CSRC is studying a proposal to open up the PRC securities industry to financial institutions such as commercial banks, without giving any timetable on when the new policy will be announced. Allowing PRC commercial banks to enter the securities industry is expected to intensify market competition, particularly in securities brokerage and equity underwriting, as well as to accelerate industry reforms as traditional commercial banks generally have greater financial resources, wider branch network and larger customer base compared to securities firms, like CISC. The deregulation of the PRC securities industry could also induce foreign financial institutions to enter into the PRC market, which institutions are currently subject to PRC regulatory limitations and restrictions on their business activities.

***Economic, political and social conditions in the PRC and government policies could affect its business and prospects.***

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

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may negatively affect it. If the business environment in China deteriorates, its business in China may also be materially adversely affected.

***Government control of currency conversion may limit the ability of CISC to use capital efficiency.***

Most of the revenue of CISC is denominated in RMB, which is also its reporting currency. RMB is not a freely convertible currency. A portion of its cash may be required to be converted into other currencies, particularly US dollars, in order to meet its foreign currency needs.

However, the PRC government may restrict future access to foreign currencies for current account transactions at its discretion. Foreign exchange transactions under capital account in the PRC continue to be not freely convertible and require the approval of SAFE. These limitations could affect its ability to obtain foreign currencies through equity financing, or to obtain foreign currencies for capital expenditure.

***Future fluctuations in the value of the RMB could have a material adverse effect on the financial condition and results of operations of CISC.***

While CISC generates most of its revenue in the PRC, it also offers securities products and services in Hong Kong to overseas customers. A small portion of its revenue and expenses are denominated in HK dollars and US dollars, although its functional currency is the RMB. As a result, fluctuations in exchange rates, particularly between the RMB, Hong Kong dollar and US dollar, could affect its profitability and may result in foreign currency exchange losses of its foreign currency-denominated assets and liabilities.

The exchange rates of the RMB against the US dollar and other currencies fluctuate and are affected by, among other things, changes in the PRC and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of the RMB into foreign currencies, including the Hong Kong dollar and the US dollar, has been based on rates set daily by the PBOC based on the previous business day's interbank foreign exchange market rates and exchange rates in global financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the RMB to US dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. On June 19, 2010, the PBOC announced that the PRC government would reform the RMB exchange rate regime and increase the flexibility of the exchange rate. In April 2012, the PBOC enlarged the floating band for the trading price of the RMB against the US dollar on the interbank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of the RMB against the US dollar on the interbank spot exchange market to 2.0% around the central parity rate. For example, from August 10, 2015 to August 13, 2015, the exchange rate of the RMB against US dollar decreased by 4.7%. From January 8, 2016 to March 31, 2016, the exchange rate of the RMB against the US dollar decreased by 1.6%. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in further appreciation or depreciation of the RMB against the US dollar. There can be no assurance that the RMB will not experience significant appreciation or depreciation against HK dollars and US dollars in the future.

Currently, CISC has not entered into any hedging transactions to mitigate its exposure to foreign exchange risk. As a result, any significant increase in the value of the RMB against foreign currencies could reduce the value of its foreign currency-denominated revenue and assets.

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

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza, the Ebola virus or Middle East Respiratory Syndrome, may materially adversely affect the business, financial condition and results of operations of CISC. In 2009, there were reports of the occurrence of H1N1 influenza in certain regions of the world, including the PRC and Hong Kong, where it conducts business. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially adversely affect its business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially adversely affect its economy and therefore the business of CISC. There can be no assurance that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza or other epidemics, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt the operations of CISC or those of its customers, which may materially and adversely affect its business, financial condition and results of operations.

**Risks Relating to the Regulatory Policies and Compliance Risks**

***CISC is subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may affect its business operations and prospects.***

As a financial institution, CISC is subject to extensive regulations in China and abroad. Regulatory authorities regulate its business activities by imposing capital requirements, determining the types of products and services it may offer, and limiting the types of securities it may invest in.

The regulatory authorities in the jurisdictions where it operates, principally China and Hong Kong, conduct periodic inspections, examinations and inquiries with respect to its compliance with relevant regulatory requirements. For example, the CSRC assigns a regulatory rating to each securities firm based on its risk management capabilities, competitiveness and compliance with regulatory requirements. CISC is among the few PRC securities firms to have received a Class A regulatory rating from the CSRC for consecutive years since 2007 when the CSRC adopted the rating framework. For details of the factors taken into account by the CSRC in assigning regulatory ratings, see "Regulation Overview—Regulatory Environment of the PRC." However, there is no assurance that the CSRC will not lower its regulatory rating in the future, which may make it unqualified for conducting certain new businesses or obtaining business permits or approvals for its businesses, or cause it to be subject to a higher risk capital reserve ratio or a higher ratio for its securities investor protection fund.

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 its regulatory rating and limitations or prohibitions on its future business activities, which may limit its ability to conduct pilot programs and launch new products and services, and harm its reputation. During the Track Record Period, CISC and its employees had been involved in certain non-compliance incidents and regulatory investigations, and received warnings or penalties from the relevant regulatory authorities. See "Business—Legal and Regulatory—Regulatory Non-compliances." Material non-compliance incidents may subject it to penalties, limitations, conditions or prohibitions on its business activities, which could have a material and adverse effect on its business, reputation, financial condition and results of operations.

Moreover, the PRC securities industry is highly regulated and relevant rules and regulations could be revised from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of currently existing rules and regulations may directly impact its business strategies and prospects. For example, in 2015, the CSRC introduced and amended multiple rules and regulations on margin financing and securities lending. See " —PRC rules and regulations on margin financing and securities lending have been continuously changing, resulting in increased compliance costs, which may increase its compliance risks and credit risks" below. In addition, changes in the rules and regulations could result in limitations on the business lines that it may conduct, modifications to its business practices or additional costs, which may adversely affect its ability to compete effectively with other institutions that are not affected in the same way.

***The regulatory authorities in the PRC may impose fines on CISC or reclaim its land if CISC fails to comply with the terms of the land grant contract.***

On October 11, 2016, Nanshan Bureau of Urban Planning, Land & Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會南山管理局) ("**Nanshan Bureau**") issued an idle land investigation notice to CISC in relation to the delay in commencement of construction work for one year for one of its properties under construction. Under PRC laws and regulations, if CISC fails to develop a property project relating to the time for commencement of property development for more than one year according to the land grant contract, and such delay of commencement is caused by reasons other than government action or force majeure, the PRC government may, among other things, issue a warning, impose an idle land fee, or reclaim its land.

Currently, CISC is in the process of communicating with Nanshan Bureau to postpone the commencement date and extend the construction period. The delay in the commencement of construction work was primarily due to the reason that the relevant construction approval was not granted to CISC by relevant authorities until November 2015 due to the prolonged discussions among the relevant authorities, Shenzhen Metro Group Co., Ltd. and CISC in relation to the installation location of subway station cooling tower.

The PRC legal advisors are of the view that the risk that CISC would be subject to forfeiture of land is relatively low given that (i) the delay in commencement of construction was affected by the prolonged discussions in relation to the installation location of subway station cooling tower; (ii) the Office of Financial Services Development of the Shenzhen Municipal Government has provided a letter of support on November 15, 2016 to the Nanshan Bureau evidencing the government cause on CISC's delay in commencement of construction and requesting for the support and understanding from Nanshan Bureau in relation to the matter; and (iii) CISC has agreed that it will commence construction on the given land within the timeframe to be required by Nanshan Bureau. The directors of CISC also consider that such delay in commencement of construction work will not have any material operational or financial impact on CISC. See "Business—Properties—Properties under Construction in the PRC" for further details. However, there can be no assurance that CISC will be able to fully comply with the obligations under the land grant contract in the future due to factors which are beyond its control, or that its property development will not be subject to idle land penalties or be taken back by the government as a result of such delays. If CISC fails to comply with the terms of the land grant contract as a result of delays in project development or any other reasons, it may lose its previous investments in the land and the opportunity to develop the project.

## RISKS RELATING TO THE FINANCIAL CONDITIONS OF CISC

***A significant decrease in the liquidity of CISC could negatively affect its business and may reduce customer confidence in it.***

Maintaining adequate liquidity is crucial to the business operations of CISC as it continues to expand its capital-based intermediary business, proprietary investment and trading, investment banking, and other business activities with substantial cash requirements. It meets its liquidity needs primarily through cash generated from operating activities and debt financing. A reduction in its liquidity could affect its ability to develop its business, reduce the confidence of its customers or counterparties in it, which may result in the loss of business and customer accounts. In addition, according to the CSRC's requirements, a PRC securities firm's net capital to net assets ratio shall not fall below 20.0%, the net capital to total liabilities ratio shall not fall below 8.0%, and the net assets to total liabilities ratio shall not fall below 10.0%.

According to the CSRC, each PRC securities firm is required to maintain both its liquidity coverage ratio (ratio of high-quality liquid assets to net cash outflow for the next 30 days) and net stable funding ratio (ratio of available amount of stable funding to required amount of stable funding) at not less than 100%. As of December 31, 2015, the liquidity coverage ratio of CISC and net stable funding ratio stood at 441.8% and 146.2%, respectively. Failure to comply with these requirements may result in the CSRC imposing penalties or disciplinary action on CISC, which could, in turn, have a material and adverse effect on its financial condition and results of operations.

Factors that may adversely affect its liquidity position include a significant increase in its capital-based intermediary businesses, increased regulatory capital requirements, substantial investments, loss of market or customer confidence, or other regulatory changes. When cash generated from its operating activities is not sufficient to meet its liquidity or regulatory capital needs, it must seek external financing. During periods of disruption in the credit and capital markets or changes of regulatory environment, potential sources of external financing could be limited and its borrowing costs could increase. Although its management believes that it has diversified sources of external financing, including a mix of short-term and long-term debt financing instruments, such financing may not be available on acceptable terms or at all due to unfavorable market conditions and disruptions in the credit and capital markets.

***Significant interest rate fluctuations could affect the financial condition and results of operations of CISC.***

The interest rate risk of CISC is primarily related to its interest income, interest expenses and investment income from fixed-income investment. It earns interest income from bank deposits (including its own deposits and customer deposits), margin financing and securities lending as well as stock repurchases and securities-backed lending. During periods of declining interest rates, its interest income may fall.

It also makes interest payments on short-term financing bills, corporate bonds and repurchase transactions, as well as subordinated bonds and other debt securities. These interest expenses are directly linked to the then prevailing market interest rates. During periods of rising interest rates, its interest expenses and financing costs would generally increase.

In addition, it holds fixed-income investments. Although it may hedge through treasury bond futures to reduce interest rate risks, during periods of rising interest rates, market prices and its investment returns on fixed-income securities would generally fall.

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

**Risks Relating to Internal Controls and General Operations**

***Its risk management policies and procedures and internal controls, as well as the risk management tools available to CISC, may not fully protect it against various risks inherent in its business.***

CISC has established an internal risk management framework and procedures to manage its risk exposures, primarily including market, credit, liquidity, compliance and operational risks. Certain areas within its risk management policies and internal control systems and procedures may require constant monitoring, maintenance and continual improvement by its senior management and staff. Due to the size of its operations and its extensive branch network, there can be no assurance that that such implementation will not involve human errors or mistakes, which may have a material and adverse effect on its business, financial condition and results of operations.

In addition, although it implements its risk management policies and internal control systems, they may not be adequate or effective in mitigating its risk exposures or protecting it against unidentified or unanticipated risks. In particular, some risk management approaches are based on observations of historical market behavior and its experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by its historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up to date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience data that it relies on for its risk management methods may quickly become outdated as markets and regulations continue to evolve. If it fails to promptly adjust and improve its risk management and internal control systems and procedures in response to the development of its branch outlets and the expansion of its business and products, its business, financial condition and results of operations could be materially and adversely affected.

Moreover, its risk management framework may not totally prevent the occurrence of non-compliance incidents, such as the incidents described in "Business—Legal and Regulatory—Regulatory Non-compliances", which incident led to a deduction of its regulatory points. Its business and prospects may be materially adversely affected if its efforts to maintain these policies, systems and procedures are ineffective or inadequate. Deficiencies in its risk management and internal control systems and procedures may adversely affect its ability to identify any reporting errors and non-compliance with rules and regulations, which may also have a material adverse effect on its business, financial condition and results of operations.

***CISC may not be able to manage fraud or other misconduct committed by its employees, agents, customers or other third parties.***

CISC may be exposed to fraud or other misconduct committed by its employees, agents, customers or other third parties that could subject it to financial losses and sanctions imposed by regulatory authorities, and adversely affect its reputation.

Its internal control procedures are designed to monitor its operations and ensure overall compliance. However, its internal control procedures may be unable to identify all non-compliance incidents or suspicious transactions in a timely manner or at all. See "Business—Risk Management and Internal Control Measures in Major Business Lines—Incidents Relating to the Former Chairman of CISC" and "Business—Legal and Regulatory—Regulatory Non-compliances." Furthermore, it is not always possible to timely detect and prevent fraud and other misconduct, and the precautions it takes to prevent and detect such activities may not be effective. Its failure to detect and prevent fraud and other misconduct may have a material adverse effect on its business reputation, financial condition and results of operations.

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

CISC is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations in the jurisdictions where it operates. These laws and regulations require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require it to, among other things, establish or designate an independent anti-money laundering department, conduct customer identification in accordance with relevant rules, duly preserve customer identity information and transaction records and report suspicious transactions to relevant authorities.

While it has adopted policies and procedures aimed at detecting and preventing the use of its business platforms to facilitate money laundering activities and terrorist acts, such policies and procedures may not be comprehensive and completely eliminate instances in which it may be used by other parties to engage in money laundering and other illegal or improper activities. In the event that it fails to fully comply with applicable laws and regulations, the relevant government agencies may freeze its assets or impose fines or other penalties on it. 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 its business reputation, financial condition and results of operations.

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

The operations of CISC relies heavily on its IT systems to record and process accurately a large number of transactions across numerous and diverse markets and different business segments in a timely manner. Its system for processing securities transactions is highly automated. A prolonged disruption to, or failure of, its information processing or communications systems would limit its ability to process transactions. This would impair its ability to service its customers and execute trades on behalf of customers and for its own account, which could materially adversely affect its competitiveness, financial condition and results of operations.

The proper functioning of its core IT systems, online platform, data processing system, mobile applications, risk management and legal and compliance system and other data processing systems, together with the communication networks between its headquarters and branches, are critical to its business and its ability to compete effectively. It has established backup centers in Shenzhen and Shanghai to carry on principal functions in the event of a catastrophe or failure of its systems, including those caused by human error. However, there can be no assurance that its operations will not be materially disrupted if any of its systems fails. In addition, if the capacity of its trading system is unable to process all trading orders, it may be subject to client complaints, litigation or adverse effects on its reputation.

The securities industry is characterized by rapidly changing technology. Online trading platforms and mobile applications are becoming increasingly popular among its customers due to their convenience and user-friendliness. It relies heavily on technology, including its online platform, and mobile applications to provide a wide range of brokerage services. However, its technology operations are vulnerable to disruptions from human error, natural disasters, power disruption, computer viruses, spam attacks, unauthorized access and similar events. Disruptions to, or the instability of, its technology or external technology that allows its customers to use its online products and services could harm its business and reputation.

***The business of CISC might be affected by the operational failure of third parties.***

CISC faces the risk of operational failure or termination of any of the exchanges, depositaries, clearing agents or other financial intermediaries it uses to facilitate its securities transactions. It was not subject to any material operational failure of third parties during the Track Record Period. Any future operational failure or termination of the particular financial intermediaries that it uses could adversely affect its ability to execute transactions, service its customers and manage its exposure to various risks.

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

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

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

From time to time, it is subject to litigation, regulatory investigations and proceedings arising in the ordinary course of its business. See "Business—Legal and Regulatory." A significant judgment or regulatory action against it, or a disruption in its business arising from adverse adjudications in proceedings against its directors, officers or employees, would have a material adverse effect on its liquidity, business, financial condition, results of operations and prospects.

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

As it expands the scope of its business and its customer base, it is critical for CISC to be able to address potential conflicts of interest, including situations where two or more interests within its business legitimately exist but are in competition or conflict. See "Business—Risk Management and Internal Control Measures in Major Business Lines—Chinese Wall and Conflicts of Interest."

CISC has extensive internal control procedures that are designed to identify and address conflicts of interest. However, appropriately identifying and dealing with potential conflicts of interest is complex and difficult. Its failure to manage conflicts of interest could harm its reputation and erode client confidence in it. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could adversely affect its business, financial condition and results of operations.

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

CISC is subject to various laws, regulations and rules governing the protection of the personal data and confidential information of its clients. It routinely transmits and receives personal data and confidential information of its clients through the Internet, by email and other electronic means. Third parties may have the technology or expertise to breach the security of its transaction data and it may not be able to ensure that its vendors, service providers, counterparties or other third parties have appropriate measures in place to protect the confidentiality of such information. In addition, there is no assurance that its employees who have access to the personal data and confidential information of its clients will not improperly use such data or information. If it fails to protect its clients' personal data and confidential information, the competent authorities may issue sanctions against it and it 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 its clients could bring reputational harm to it, which may materially adversely affect its business and prospects.

***CISC has not obtained title certificates to some of the properties it owns and some of its lessors lack, or have not presented to it, appropriate title certificates for the properties it leases from them, which may adversely affect its right to use such properties.***

As of the Latest Practicable Date, CISC owned 16 properties in the PRC with an aggregate gross floor area of 7,643 square meters. Among these 16 properties, it has not obtained proper building ownership certificates and/or land use rights certificates for 14 properties with a gross floor area of approximately 708 square meters, representing 9.3% of the aggregate gross floor area of properties it owns as these properties are under the local government housing scheme for talents of Shenzhen, and the building ownership certificates and/or land use rights certificates of such properties could not be obtained from the local government of Shenzhen. As of the same date, it leased 260 properties in China, with an aggregate gross floor area of 168,004 square meters. Among these 260 properties, it has not been provided by the landlords with the building ownership certificates or documents authorizing the leasors to lease out these properties for 71 properties with a gross floor area of approximately 43,382 square meters, representing approximately 25.8% of the aggregate gross floor area of the buildings it leases. It used these 71 leased properties primarily for business and office purposes. See "Business—Properties."

CISC's use and occupation of the relevant land and properties could be challenged, and it might not be able to secure alternative properties for its business if it is required to relocate. If CISC or its landlords of these leased properties cannot obtain the relevant land use rights or building ownership certificates in a timely manner and its legal right to use or occupy the relevant properties is challenged, CISC may have to find alternative properties, incur additional relocation costs, or its business operations could be disrupted, any of which could adversely affect its results of operations and financial condition.

## RISKS RELATING TO THIS CIRCULAR

### Certain statistics, data and other information relating to the economy and the industry contained in this circular are derived from various unofficial or official sources and may not be reliable.

Statistics, industry data and other information relating to the economy and the securities industry contained in this circular have been derived from various unofficial or official sources. The Group or its Directors, agents and advisers cannot assure you or make any representation as to the accuracy or completeness of such information and statistics. None of the Group or any of their respective affiliates, directors, employees, agents or advisers have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from the sources. Due to possible flawed collection methods, discrepancies in published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from various sources might be inaccurate or might not be comparable to statistics produced from other sources and should not be unduly relied upon. Shareholders should give careful consideration as to how much weight or importance to attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

### Forward looking statements contained in this circular are subject to risks and uncertainties.

This circular contains certain statements that are "forward-looking" and uses forward looking terminology such as "anticipate", "believe", "expect", "may", "plan", "consider", "ought to", "should", "would" and "will". Those statements include, among other things, the discussion of CISC's growth strategy and the expectations of the Enlarged Group's future operations, liquidity and capital resources. Investors of the Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations or warranties by the Group or CISC that the Enlarged Group's plans and objectives will be achieved, and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. The Group and CISC do not intend to update these forward looking statements in addition to the Enlarged Group's on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

## 2. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF CISC

### DIRECTORS

The board of directors of CISC consists of six directors. The following table sets forth certain information about the directors of CISC:

| Name | Age | Date of joining | Date of appointment (second session of the board of directors) | Position | Responsibility |
|---|---|---|---|---|---|
| Mr. Gao Tao (高濤) | 51 | August 26, 2015 | October 27, 2015 | Chairman | Long-term strategy, overall operation and internal auditing supervision |
| Mr. Hu Changsheng (胡長生) | 50 | November 9, 2011 | December 13, 2011 | Vice chairman | Overall operation and business development |
| Mr. Yu Jiannan (余建南) | 43 | January 27, 2011 | December 13, 2011 | Director | Risk management and remuneration policy |
| Mr. Jiang Yanfu (姜彥福) | 72 | September 14, 2005 | December 13, 2011 | Independent director | Auditing supervision and formulating development strategy |
| Mr. He Jia (何佳) | 62 | October 31, 2005 | December 13, 2011 | Independent director | Auditing supervision and formulating remuneration policy |

| Name | Age | Date of joining | Date of appointment (second session of the board of directors) | Position | Responsibility |
|---|---|---|---|---|---|
| Mr. Liu Junhai (劉俊海) | 47 | March 21, 2016 | March 21, 2016 | Independent director | Risk management and auditing supervision |

**Mr. Gao Tao** (高濤), aged 51, has been the chairman of the board of directors of CISC and chairman of executive committee of CISC since October 2015. From June 1991 to May 2005, he held several positions in China Construction Bank including a vice director and general manager of the department of human resources of Anhui Branch, and the president of Huainan Branch. From May 2005 to September 2005, he served as a member of the Securities Restructuring Committee, China Jianyin Investment Co., Ltd. From September 2005 to September 2006, he held several positions in CISC including a general manager of the department of human resources and a vice president. From September 2006 to September 2012, he held several positions in Hong Yuan Securities Co., Ltd. Including a vice general manager, the board secretary and a vice chairman. From September 2012 to August 2015, he served as a vice president of China Jianyin Investment Co., Ltd.

Mr. Gao graduated with a bachelor's degree in agriculture from Anhui Agricultural University (formerly known as Anhui Agricultural College) in July 1986, and an Executive Master of Business Administration ("**EMBA**") degree from Renmin University of China in January 2009.

**Mr. Hu Changsheng** (胡長生), aged 50, has been the vice chairman and president of CISC since November 2011 and the vice chairman of executive committee of CISC since July 2012. From December 1998 to December 2005, he has successively served as the deputy director of the general division of the Policy Research Office, member (at cadre level) of the Planning and Development Committee, consultant of the Institution Supervision Division, and commissioner of the Shenzhen Commissioner's Office under the CSRC. From December 2005 to January 2008, he has served as the deputy director and director of the capital market department of Huijin. From January 2008 to November 2011, he has acted as the senior business head and capital market department director of the non-bank department of Huijin. From December 2005 to April 2010, he has held the position as director, vice chairman of the board of directors and acting president of China Galaxy Securities Co. Ltd. (Stock Exchange stock code: 06881). From January 2007 to September 2010 he has acted as director of China Galaxy Financial Holdings Company Limited. From November 2007 to January 2010 he has acted as director of China Everbright Industry Group Ltd.. He has also served as the vice chairman of the board of directors of China Securities Co., Ltd. (中信建投證券股份有限公司) from March 2011 to November 2012. He has acted as the chairman of CISC Luckystone since November 2011. He has been the chairman of CISC Changchun Venture Capital Fund Management Co., Ltd. from December 2012 to September 2015. He has acted as the chairman of CISC Huajing (Beijing) Investment Management Limited since April 2014. He has acted as the chairman of CISC Overseas Chinese Entrepreneurs (Beijing) Investment Fund Management Co., Ltd. since April 2014.

Mr. Hu graduated with a doctor's degree in economics from the Graduate Division of Beijing Public Finance Science Research Institute of Ministry of Finance in July 1997.

**Mr. Yu Jiannan** (余建南), aged 43, has been a director of CISC since January 2011. From July 1996 to June 2001, he held various positions in China Construction Bank Guangdong Branch and Guangzhou Branch, including officer of the human resources department, vice chief officer of the labour section, vice chief officer of the human resources department and assistant to the director of the human resources department. From June 2001 to September 2007, he acted as the vice chief and the chief of the department of human resources in China Cinda Asset Management Corporation Co., Ltd. (Stock Exchange stock code: 01359) and was on secondment as vice head of Ledu County, Qinghai Province from October 2005 to February 2007. From September 2007 to April 2011, he acted as a senior manager of the human resources department of China Investment Corporation. Mr. Yu has served as a vice director of the human resources department of China Investment Corporation since April 2011.

Mr. Yu graduated with a bachelor's degree in economics from Guangdong College of Commerce in 1996.

**Mr. Jiang Yanfu** (姜彥福), aged 72, has been an independent director of CISC since September 2005. From March 1970 to September 1978, Mr. Jiang held the position of electrical technician at the Machinery Factory of Tsinghua University. From October 1978 to May 2009, Mr. Jiang worked as teaching assistant, lecturer, associate professor and professor respectively at School of Economics and Management, Tsinghua University. From September 2010 to January 2016, Mr. Jiang has been an independent director of Zhejiang Reclaim Construction Group Co., Ltd. (Shenzhen Stock Exchange stock code: 002586); from May 2011 till now, he has been an independent director of Synthesis Electronic Technology Co., Ltd. (Shenzhen Stock Exchange stock code: 300479); from April 2010 to April 2016, he has been an independent director of Shandong Contact Telecommunication Co., Ltd. (NEEQ stock code: 833804); and from September 2015 till now, he has been an independent director of Jiangxi Bestoo Energy Co., Ltd. (NEEQ stock code: 835359).

Mr. Jiang graduated in automation major from Tsinghua University in March 1970.

**Mr. He Jia** (何佳), aged 62, has been an independent director of CISC since October 2005. He served as a professor of Finance Department of Chinese University of Hong Kong from August 1998 to July 2015. Mr. He has also served as a leading professor in South University of Science and Technology of China since May 2014. Mr. He has served as an independent director of Shenzhen Xinguodu Technology Co., Ltd. (Shenzhen Stock Exchange stock code: 300130) since May 2014, an independent director of Tsinghua Tongfang Co., Ltd. (Shanghai Stock Exchange stock code: 600100) since May 2015 and an independent director of CITIC Securities Co., Ltd. (Shanghai Stock Exchange stock code: 600030; Hong Kong Stock Exchange stock code: 06030) since March 2016.

Mr. He graduated with a bachelor's degree in Mathematics from Heilongjiang University in July 1978, a master's degree in Computer and Management Science from Shanghai Jiao Tong University in December 1983, and a PhD degree in finance from Wharton School, University of Pennsylvania in May 1989.

**Mr. Liu Junhai** (劉俊海), aged 47, has been an independent director of CISC since March 2016. Mr. Liu held the positions of research assistant, deputy researcher, researcher, assistant to director and head of the institute affairs office of the Institute of Law of Chinese Academy of Social Sciences from July 1995 to September 2006. He has been a professor of the Law School of Renmin University of China since September 2006. Mr. Liu has been an independent director of Sinotrans Limited (Stock Exchange stock code: 598) since December 2012; an independent director of Tus-Sound Environmental Resources Co., Ltd. (Shenzhen Stock Exchange stock code: 000826) since October 2015, an external director of LandOcean Energy Services Co., Ltd. (Shenzhen Stock Exchange stock code: 300157) since December 2015, an independent director of China Resources Double-Crane Pharmaceutical Company Limited (Shanghai Stock Exchange stock code: 600062) since August 2016, and an independent non-executive director of China Solar Energy Holdings Limited (Stock Exchange stock code: 00155) from March 2014 to November 2014.

Mr. Liu graduated with a doctor's degree in law from Graduate School of Chinese Academy of Social Science in July 1995.

**SUPERVISORS**

The board of supervisors of CISC consists of four supervisors. The following table sets forth certain information about supervisors of CISC:

| Name | Age | Date of joining | Date of appointment | Position | Responsibility |
|---|---|---|---|---|---|
| Ms. Li Hui (李慧) | 47 | October 18, 2011 | October 18, 2011 | Shareholder representative supervisor | Supervising financial management |
| Ms. Wang Yingying (王穎盈) | 41 | October 18, 2011 | October 18, 2011 | Shareholder representative supervisor | Supervising human resources-related matters |
| Mr. Fu Chaoyang (付朝陽) | 41 | May 1, 2011 | October 18, 2011 | Employee representative supervisor | Supervising human resources-related matters |
| Mr. Zhu Qiang (朱強) | 54 | September 28, 2005 | October 18, 2011 | Employee representative supervisor | Supervising compliance of the business operation |

**Ms. Li Hui** (李慧), aged 47, has been a supervisor of CISC since October 2011. Ms. Li served as an auditor and accountant of China State Shipbuilding Corporation from July 1991 to December 1998; she held the position of a deputy chief and researcher of Commission of Science, Technology and Industry for National Defense from December 1998 to July 2008; she held the position of a chief of State Administration of Science, Technology and Industry for National Defense from July 2008 to March 2010. She has been a senior manager of financial department of China Investment Corporation since March 2010.

Ms. Li graduated with a bachelor's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance and Economics) in June 1991 and a master's degree in industrial engineering from Beihang University in December 2003.

**Ms. Wang Yingying** (王穎盈), aged 41, currently works as a dispatched supervisor to CISC from the securities institutions management department and insurance institutions management department of Huijin and supervisor of CISC since October 2011. Ms. Wang held the position of a human resources manager of BP plc (LSE: BP; FWB: BPE; NYSE: BP) from February 2002 to October 2009. She holds several positions in the human resources department of China Investment Corporation, including a senior deputy manager from October 2009 to September 2010, a senior manager from September 2010 to October 2014 and a managing director since October 2014.

Ms. Wang graduated with a bachelor's degree in international economics from University of International Business and Economics in July 1998 and a master's degree in personnel management and business administration from Aston University in January 2000. Ms. Wang obtained a master's degree in public administration from Tsinghua University in July 2015.

**Mr. Fu Chaoyang** (付朝陽), aged 41, has been a general manager of human resources department of CISC since May 2011 and a supervisor of CISC since October 2011. Mr. Fu worked in human resources department of head office of China United Network Communications Corporation Limited from January 2001 to December 2002; he held various positions in China Communication System Co., Ltd. from December 2002 to October 2009, including general manager and employee representative supervisor of human resources department and general manager of asset operation department; he held the position of senior deputy manager of human resources department of China Investment Corporation from October 2009 to April 2011.

Mr. Fu graduated from Dongbei University of Finance & Economics with a bachelor's degree in management of investment economics in June 1998, and a master's degree in business administration in March 2001.

**Mr. Zhu Qiang** (朱強), aged 54, has been a deputy director (in charges of operations) of discipline inspection and supervision office of CISC since June 2012 and a supervisor of CISC since October 2011. Mr. Zhu was a faculty member of Foreign Languages School of Mudanjiang Normal College of Heilongjiang Province from July 1983 to January 1989. Mr. Zhu worked at China Southern Securities Co., Ltd. from April 1993 to November 2005 and consecutively served as a chief of publicity division of headquarter general office, vice general manager of Harbin branch, and manager of public relations department and vice general manager and deputy director of headquarter general office. Mr. Zhu worked at the general office of CISC from November 2005 to June 2012 and consecutively served as a director assistant, a deputy director and a supervision office director.

Mr. Zhu graduated with a bachelor's degree in English from Qiqihar Normal College in July 1983.

## SENIOR MANAGEMENT

The following table sets out certain information about the senior management of CISC:

| Name | Age | Date of joining | Date of appointment | Position | Responsibility |
|---|---|---|---|---|---|
| Mr. Gao Tao (高濤) | 51 | August 26, 2015 | October 27, 2015 | Chairman of executive committee | Long-term strategy, overall operation, and internal auditing supervision |
| Mr. Hu Changsheng (胡長生) | 50 | November 9, 2011 | December 12, 2011 | Vice chairman of executive committee and president | Overall operation, and business development |
| Mr. Liu Jun (劉軍) | 58 | November 9, 2011 | November 22, 2012 | Member of executive committee and vice president | Asset management business, board office, and planning and finance department |
| Mr. Ren Chunwei (任春偉) | 52 | September 28, 2005 | May 10, 2006 | Member of executive committee and vice president | Research department, institutional sales and trading department, operation management department, futures business, and Hong Kong business |
| Ms. Wei Xiaohui (衛筱慧) | 53 | September 28, 2005 | September 28, 2005 | Member of executive committee and vice president | Counter market management department, and alternative investments business |

| Name | Age | Date of joining | Date of appointment | Position | Responsibility |
|---|---|---|---|---|---|
| Ms. Chen Ping (陳平) | 46 | September 28, 2005 | May 27, 2009 | Member of executive committee and chief compliance officer | Risk management department, and legal and compliance department |
| Mr. Zhang Xirong (張希榮) | 56 | September 28, 2005 | May 27, 2010 | Member of executive committee and chief information technology officer | Information technology department, and settlement and custody department |

For the biography of Mr. Gao Tao and Mr. Hu Changsheng, please refer to "Directors" in this section.

**Mr. Liu Jun** (劉軍), aged 58, has been a member of executive committee and vice president of CISC since November 2012. Mr. Liu served as an officer and a deputy chief of financial department of Liaoning Coal Industry Bureau from January 1982 to April 1988. He held various positions in National Audit Office of the PRC, including a principal officer of the industrial traffic audit department from April 1988 to May 1990, a secretary and director of the duty room of the general office from May 1990 to August 1993, and a chief in the general section of the department of foreign funds audit from August 1993 to May 1994. He served as an acting general accountant of China Economic Development Trust & Investment Corp. from May 1994 to January 1996, the chairman and the general manager of Beijing Zhongjingkai Property Management Co., Ltd. from January 1996 to April 2000, the general manager of Zhongjingxin International Mansion Co., Ltd. from May 2000 to September 2001, a deputy general manager of China Communication System Co., Ltd. from September 2001 to April 2003, the general manager in Liangxiang Conference Center of Debao Industrial Co., Ltd. from April 2003 to January 2006. He held various positions in China Insurance Regulatory Commission, including a chief in the division of complaints and appeal of the general office from February 2006 to July 2007, a director assistant of Liaoning Supervision Bureau from August 2007 to March 2010 and a deputy director of the Supervision Bureau from March 2010 to November 2011. He also served as the general manager of the operation management department of CISC from November 2011 to October 2014 and the general manager of the Beijing branch of CISC from October 2012 to April 2015.

Mr. Liu graduated with a bachelor's degree in industrial accounting from Liaoning College of Finance and Economics in January 1982.

**Mr. Ren Chunwei** (任春偉), aged 52, has been a member of the executive committee of CISC since March 2012 and vice president of CISC since May 2006. Mr. Ren concurrently serves as the chairman of CIS HK and the chairman of Tianqi Futures. Mr. Ren was an officer of China Construction

Bank (the Stock Exchange stock code: 00939, and Shanghai Stock Exchange stock code: 601939) Inner Mongolia Branch from August 1986 to October 1995. He held various positions in the head office of China Construction Bank, including an officer and deputy chief in the international business department from October 1995 to April 2001, a deputy chief, a chief, a senior manager and a general manager assistant of the accounting department from February 2001 to January 2005. He served as a vice general manager of the finance and accounting department of China Jianyin Investment Co., Ltd. from January 2005 to September 2005. He held the position of chief financial officer of CISC from September 2005 to May 2006.

He graduated with a bachelor's degree in applied chemistry from Tsinghua University in July 1986 and a master's degree in monetary and banking from Tianjin College of Finance & Economics through a master program for working professionals in December 1997. He graduated with a Master of Business Administration degree from Chinese University of Hong Kong through a program for working professionals in November 2012.

**Ms. Wei Xiaohui** (衛筱慧), aged 53, has been a member of executive committee of CISC since March 2012 and vice president of CISC since September 2005. Ms. Wei also serves as the chairman of Alternative Investment Company. Ms. Wei served as a deputy chief of the West Hefei Branch of Sinopec Anhui Sales Co., Ltd. from November 1983 to June 1989. She held the position of a financial manager of Shenzhen Yuanshan Precision Mechanical & Electrical Co., Ltd. from June 1989 to December 1990, a chief of fund division of the settlement center, and deputy general manager of Zhaoyang Consulting Company and Information and Advertisement Company, Ltd. of Shenzhen Petrochemical Industry (Group) Co., Ltd. (formerly known as "Shenzhen Petrochemical (Group) Co., Ltd.") successively from February 1991 to September 1996. She held the position of a head office deputy general manager and general manager of the fund and finance department and of the electronic commerce department and a vice president of brokerage business department of Guosen Securities (Shenzhen Stock Exchange stock code: 002736) from October 1996 to December 2003. She was a member of the administrative takeover team of China Southern Securities Co., Ltd. from January 2004 to September 2005.

Ms. Wei graduated with a college degree in industrial accounting from Anhui Commerical School through a program for working professionals in July 1980. She graduated with an EMBA degree from Hong Kong University of Science and Technology through a program for working professionals in November 2006.

**Ms. Chen Ping** (陳平), aged 46, has been a member of executive committee of CISC since March 2012 and the chief compliance officer of CISC since May 2009. Ms. Chen serves as the general manager of risk management department of CISC and chief supervisor of Tianqi Futures. Ms. Chen worked for the People's Procuratorate of Zhuhai, Guangdong from April 1995 to August 1997. She worked for Guangdong Guanghe Law Firm from August 1997 to December 1997. She worked for Shenzhen Sino Development Co. Ltd. from December 1997 to May 1998. She worked as deputy manager of the legal department and asset preservation department of China Southern Securities Co., Ltd. from May 1998 to November 2005. She also held various positions in CISC, including a general manager assistant of the legal affairs department from November 2005 to July 2007, a deputy general manager of the legal & compliance department from July 2007 to April 2008 and a general manager of the legal & compliance department from April 2008 to May 2010.

Ms. Chen graduated with a bachelor's degree in economic law from China University of Political Science and Law in July 1992 and a master's degree in criminal law from China University of Political Science and Law in January 1995.

**Mr. Zhang Xirong** (張希榮), aged 56, has been a member of executive committee of CISC since March 2012 and a chief information technology officer since May 2010. He worked with the Sun Yat-Sen University computer center from July 1982 to April 1992 and with Shenzhen Shenda Telephone Co., Ltd. from May 1992 to December 1992. He held various positions in China Southern Securities Co., Ltd., including a branch computer director, a deputy manager and a manager of the computer department of the Shenzhen branch from January 1993 to March 1995, a manager of the computer department of the transaction center from April 1995 to March 1998, a manager and general manager assistant of the computer development management department from March 1998 to August 1999, a general manager assistant of the information technology department from August 1999 to July 2000, and a chief engineer of information technology department from July 2000 to October 2005. He served as a deputy general manager and general manager in the information technology department of CISC from November 2005 to May 2014.

Mr. Zhang graduated with a college degree in computer from South China Normal University through a program for working professionals in June 1988.

Save as disclosed above, the above directors, supervisors and senior management have not held directorship positions in any public companies in the past three years.

Save as disclosed above, none of the above directors, supervisors and senior management is connected with any other directors, supervisors, senior management or substantial or controlling shareholders of CISC or the Company.

As at the Latest Practicable Date, none of the above proposed directors, supervisors and senior management has any interest in the shares of CISC or the Company within the meaning of Part XV of SFO.

Save for disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51(2) or Paragraph 41(3) of Appendix 1A of the Listing Rules.

## EXECUTIVE COMMITTEE

CISC has established an executive committee with written terms of reference. The executive committee consists of seven members, being the entire senior management members, among whom Mr. Gao Tao serves as the chairman and Mr. Hu Changsheng serves as the vice chairman of executive committee. The primary duties of the executive committee are (1) to organize the implementation of the resolutions of the board of directors; (2) to formulate basic management systems, development plans and business plans; (3) to formulate plans for the establishment of internal management organs; (4) to formulate strategic capital allocation and assets and liabilities management objectives; (5) to formulate major restructuring and adjustment plans; (6) to draft major investment and financing plans; (7) to determine staff remuneration and reward and punishment plans; (8) to be responsible for the appointment or dismissal of persons in charge of functional departments and branches other than those appointed or dismissed by the board of directors; (9) other functions and powers to be performed by the executive committee in accordance with the laws, regulations, rules and the articles of association and as determined by shareholders and the board of directors.

## COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The directors, supervisors and senior management of CISC receive compensation in the form of fees, salaries, bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The aggregate amount of compensation (including fees, salaries, bonuses, contributions to pension schemes, housing and other allowances) and benefits in kind paid to the directors and supervisors of CISC for each of the year ended December 31, 2013, 2014 and 2015 and the six months ended 30 June 2016 were approximately RMB11.6 million, RMB13.4 million, RMB11.0 million and RMB3.1 million, respectively.

The aggregate amount of compensation (including fees, salaries, bonuses, contributions to pension schemes, housing and other allowances) and benefits in kind paid to the five highest paid individuals of CISC, including directors and supervisors of CISC, for each of the year ended December 31, 2013, 2014 and 2015 and the six months ended 30 June 2016 were approximately RMB17.4 million, RMB18.4 million, RMB37.3 million and RMB13.1 million, respectively.

Under the arrangements currently in force, CISC estimates the aggregate remuneration and benefits in kind payable to its directors and supervisors, excluding discretionary bonuses for the year ended December 31, 2016 to be RMB5.1 million.

During the Track Record Period, no remuneration was paid to the directors, supervisors of CISC or the five highest paid individuals as an inducement to join or upon joining CISC. No compensation was paid to, or receivable by, the directors or supervisors or past directors or supervisors of the CISC or the five highest paid individuals for the loss of office as director of any member of the CISC or of any other office in connection with the management of the affairs of any member of CISC. Save as disclosed in "Appendix IV—Accountants' Report of CISC Group", none of the directors or supervisors of CISC had waived or agreed to waive any remuneration and/or emoluments during the Track Record Period.

## 3. HISTORY AND CORPORATE STRUCTURE

### HISTORY AND DEVELOPMENT

***Establishment and development of CISC***

CISC is a fully-licensed securities firm in the PRC which provides a comprehensive range of securities products and services to serve various needs of corporate, individual, institutional and government clients. CISC's history dates back to 2005, when the predecessor, China Jianyin Investment Securities Company Ltd. (***China Jianyin Investment Securities***), was established by China Jianyin Investment Limited (***Jianyin Investment***) on 28 September 2005 through acquiring the securities-related assets from China Southern Securities Co., Ltd.. Jianyin Investment is a wholly-owned subsidiary of Huijin.

At the time of its establishment, China Jianyin Investment Securities had an initial registered capital of RMB1.5 billion, all of which was held by Jianyin Investment.

On 9 September 2009, China Jianyin Investment Securities increased its registered capital from RMB1.5 billion to RMB2.5 billion by transferring retained profits of RBM1.0 billion to its registered capital.

In April 2011, with the approvals of MOF and CSRC, Jianyin Investment transferred its entire equity interest in China Jianyin Investment Securities to Huijin at nil consideration. After completion of the above transfer, Huijin held 100% equity interest in China Jianyin Investment Securities.

On 30 September 2011, the registered capital of China Jianyin Investment Securities was increased from RMB2.5 billion to RMB5 billion by transferring retained profits of RMB2.5 billion to its registered capital.

As approved by CSRC, the company name of China Jianyin Investment Securities was changed to China Investment Securities Company Limited in November 2011.

As at the date of this circular, the registered capital of CISC was RMB5 billion.

***Milestones***

Since the incorporation of CISC, benefiting from the capital market reforms in the PRC, it has greatly expanded the scope and scale of its products and service. Set out below is a list of key milestones in the founding and development of CISC.

| Year | Event |
|---|---|
| 2005 | the predecessor of CISC, China Jianyin Investment Securities, was incorporated. |
| | CISC obtained qualification for online entrusted business. |

| Year | Event |
|---|---|
| 2008 | CISC became a member of National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會). |
| | CISC obtained qualification for open-end securities investment fund distribution business. |
| | CISC obtained qualification to underwrite short-term financing bills. |
| | CISC was among the first batch to obtain the qualification as block trade intermediary. |
| | CISC obtained qualification to conduct business in nationwide inter-bank lending market. |
| | CISC acquired 80% equity interest in Heilongjiang Tianqi Futures Brokerage Company Limited (黑龍江省天琪期貨經紀有限公司), the predecessor of Tianqi Futures. |
| | CISC obtained qualification to conduct future intermediary business. |
| 2009 | CISC was licensed to engage in direct investment business under the pilot scheme, and CISC Luckystone was established to carry out direct investment business. |
| 2010 | CISC obtained qualification for margin financing and securities lending. |
| 2011 | Huijin became the direct shareholder of CISC. |
| | CISC began to operate under the name of China Investment Securities Company Limited. |
| | CISC established a footprint in Hong Kong to carry out its overseas business. |
| 2012 | Alternative Investment Company was established to carry out alternative investment business. |
| | CISC was granted trading permission for stock repurchase by Shanghai Stock Exchange. |
| | CISC obtained qualification to underwrite small-and-middle enterprise private bonds. |
| | CISC obtained qualification for dealer-quoted bond repurchase business. |
| | CISC obtained the qualification to provide comprehensive services to insurance companies. |
| | CISC obtained qualification for margin refinancing business. |

| Year | Event |
|---|---|
| 2013 | CISC was granted trading permission for stock repurchase by Shenzhen Stock Exchange. |
| | CISI obtained qualification for total return swap business. |
| | CISC was approved to become the lead securities firm to operate recommendation and brokerage business on the NEEQ. |
| | CISC obtained qualification for custodian services for securities investment funds (private funds). |
| | CISC obtained qualification for securities-backed lending business. |
| | CISC was licensed to carry on client securities capital consuming payment services. |
| | CISC obtained qualification for securities refinancing business. |
| | CISC obtained qualification to distribute financial products. |
| | CISC was qualified to sell financial products. |
| | CISC obtained the qualification of registration of pledges of securities agency business. |
| | CISC issued its first short-term bond in inter-bank market, which opened a new channel for external financing business. |
| 2014 | CISC obtained market-making qualification on the NEEQ. |
| | CISC obtained qualification for OTC trading business. |
| | CISC obtained qualification for the Shanghai-Hong Kong Stock Connect business. |
| | CISC obtained qualification for business of financing of exercise under share incentive schemes of listed companies. |

| Year | Event |
|---|---|
| 2015 | CISC obtained qualification for Internet securities business. |
| | CISC obtained qualification for options clearing business. |
| | CISC was licensed to carry on the brokerage business and the proprietary business for options by Shanghai Stock Exchange. |
| 2016 | CISC has received a regulatory rating of "Class A Grade A" or above from the CSRC for ten consecutive years. |

### *Major Acquisition or Disposal*

During the three years ended 31 December 2015 and up to the Latest Practicable Date, CISC did not conduct any material acquisition or disposal.

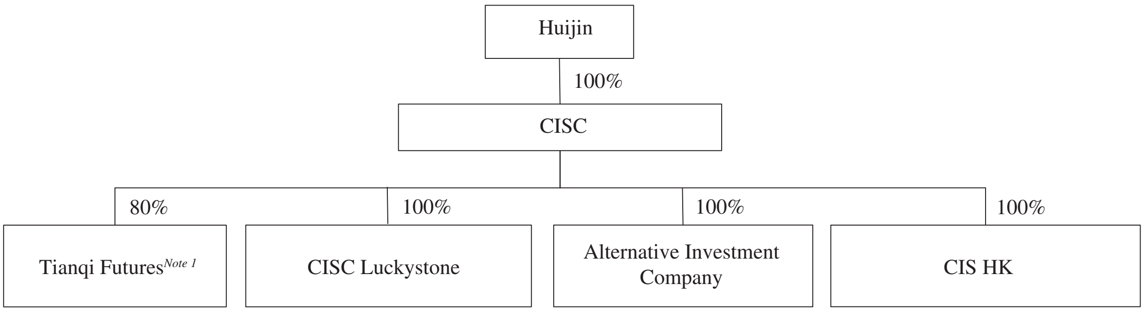
## PRINCIPAL SUBSIDIARIES

As of the Latest Practicable Date, CISC directly held three first-tier subsidiaries established in the PRC and one first-tier subsidiary in Hong Kong. The following chart sets out the details of the first-tier subsidiaries as of the Latest Practicable Date.

| No. | Name of subsidiaries of CISC | Places of Incorporation | Date of Incorporation | Registered Capital/ Issued Share Capital | Shareholding of CISC | Scope of Business |
|---|---|---|---|---|---|---|
| 1. | Tianqi Futures | PRC | March 1, 1996 | RMB300,000,000 | 80% | Commodity futures brokerage, financial futures brokerage, fund sales, asset management |
| 2. | CISC Luckystone | PRC | September 25, 2009 | RMB500,000,000 | 100% | Equity and debt investment in enterprises by using own funds or the establishment of direct investment funds, financial advisory relating to equity and debt investment |
| 3. | CIS HK | Hong Kong | August 20, 2010 | HK$500,000,000 | 100% | Investment holding, securities and futures brokerage through subsidiaries, investment banking, asset management, research and analysis |
| 4. | Alternative Investment Company | PRC | March 28, 2012 | RMB2,500,000,000 | 100% | Financial products investment, investment management and advisory |

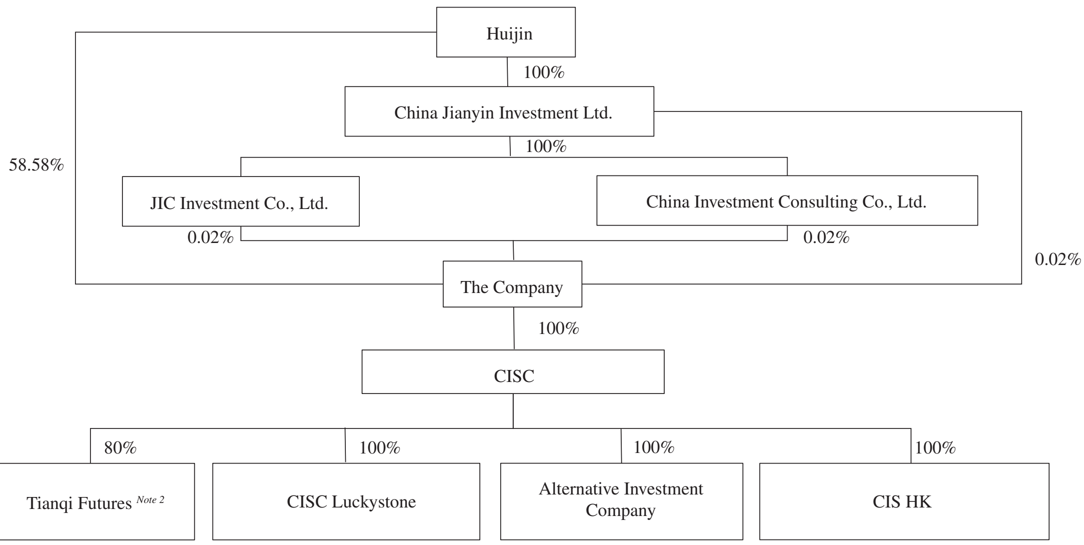
***CORPORATE STRUCTURE***

The following chart sets forth the simplified shareholding structure of CISC immediately before the completion of the Proposed Acquisition




*Note 1:* as at the Latest Practicable Date, the remaining 20% equity interest of Tianqi Futures is held by Hegang City Dongda Coal-segregation Co., Ltd..

The following chart sets forth the simplified shareholding structure of CISC immediately after the completion of the Proposed Acquisition




*Note 2:* as at the Latest Practicable Date, the remaining 20% equity interest of Tianqi Futures is held by Hegang City Dongda Coal-segregation Co., Ltd..

## 4. INDUSTRY OVERVIEW

*This section contains information and statistics on the industry in which the Company and CISC operate. The Company have extracted and derived such information and statistics, in part, from various official and publicly available sources. In addition to statistics, market share information and industry data from publicly available government sources, certain information and data contained in this section is derived from Wind Info and Dealogic (Holdings) Plc ("**Dealogic**"). Wind Info is a leading integrated service provider of financial data, information and software in the PRC domestic market, Wind Info serves financial enterprises, including securities firms, fund management companies, insurance companies, banks and investment companies. The financial database of Wind Info contains comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historical data provided by Wind Info are collected by Wind Info independently from various public information sources, including, among others, the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. The database of Dealogic encompasses information on equity and debt capital markets, syndicated lending, M&A and institutional investors. Data and information provided by Dealogic are collected by Dealogic independently from various public sources, including, among others, stock exchange announcements, offering circulars and prospectuses. The information and data derived from Wind Info and Dealogic are not commissioned by the Company or CISC and can be accessed by all of their subscribers.*

*The Company believes that the sources of the information are appropriate sources and have taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Company, the financial advisers, any of the Company's directors, officers, employees, advisors, agents or representatives or any other party involved in the Proposed Acquisition, and no representation is given as to its accuracy. Accordingly, the official information provided by the government and other third-party sources as contained herein may not be accurate and should not be relied upon unduly.*

## OVERVIEW OF THE PRC ECONOMY

China has been one of the world's fastest growing economies in the past 30 years as measured by GDP growth and the world's second largest economy by GDP since 2010. From 2011 to 2015, the PRC economy maintained steady growth with a real GDP growth rate of approximately 7.9% per year. In recent years, the PRC government shifted its focus from scale and speed toward quality and efficiency by advancing the "supply-side structural reform" so as to release new sources of economic growth. As a result, the economic structure is expected to be further optimized and upgraded and China is expected to maintain a modest and sustained economic growth. In 2015, China achieved steady economic growth, with nominal GDP reaching RMB68.6 trillion and growth rate of real GDP reaching 6.9% according to the statics published by the National Bureau of Statistics.

In the context of China's "New Normal" stage and economic transformation, China is expected to continue to implement its proactive fiscal policy and prudent monetary policy, serving to sustain the momentum of economic growth and increase economic returns. In the financial sector, the Chinese government continues to promote various reforms to facilitate the development of the financial system, including internationalization of the RMB, liberalization of interest rates and exchange rates, simplification of capital market approvals and diversification of investment channels. These initiatives are expected to create new growth opportunities for the PRC capital markets and PRC economy.

Guided and driven by the steady economic growth, China is also experiencing growth in the income of its population. According to the National Bureau of Statistics, average disposable income increased from RMB14,551 in 2011 to RMB21,966 in 2015, representing a CAGR of 10.8%. It is expected that the increase in the average disposable income of the PRC population will further support the continued growth of the PRC securities industry, in particular, the wealth management business.

## OVERVIEW OF THE PRC CAPITAL MARKETS

### PRC Capital Markets

The PRC capital markets have grown rapidly and matured substantially in the past two decades. In recent years, the PRC Government has provided strategic guidance on the future planned development of PRC capital markets, including simplification of the approval procedures, establishment of a multi-tiered capital markets system with a sound structure and comprehensive functionalities by 2020, and the further opening-up and reforms in both scale and maturity of PRC capital markets.

### Equity market

Driven by the significant economic development of the PRC, the rapid growth in household income and the steady increase in demand for financing, the PRC stock market has grown substantially and steadily in scale and maturity during the past 20 years. Although the PRC stock market experienced a surge and set a historical record in trading volume in the fourth quarter of 2014 and the first half of 2015, it has returned to the steady growth cycle since the second half of 2015.

Since the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 1990, the PRC equity markets have grown significantly in several aspects. In terms of structure, the PRC equity markets have developed into a multi-tiered structure, including the main board launched in 1990, the SME Board launched in 2004 and the ChiNext Board launched in 2009. In terms of scale, the total number of companies listed on these two exchanges increased from 2,342 as of December 31, 2011 to 2,887 as of June 30, 2016. The total market capitalization of listed companies on these two exchanges increased from RMB21.48 trillion as of December 31, 2011 to RMB46.29 trillion as of June

30, 2016. The PRC stock market in aggregate ranked No. 2 in the world in terms of total market capitalization of listed companies as of June 30, 2016. The following table includes key information on the main board, the SME Board and the ChiNext Board as of the end of the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 | CAGR 2011-2015 |
|---|---|---|---|---|---|---|---|
| **Number of listed companies** | | | | | | | |
| Main boards | 1,415 | 1,438 | 1,433 | 1,475 | 1,559 | 1,584 | 2.5% |
| Shenzhen Stock Exchange | 484 | 484 | 480 | 480 | 478 | 478 | (0.3%) |
| Shanghai Stock Exchange | 931 | 954 | 953 | 995 | 1,081 | 1,106 | 3.8% |
| SME Board | 646 | 701 | 701 | 732 | 776 | 791 | 4.7% |
| ChiNext Board | 281 | 355 | 355 | 406 | 492 | 512 | 15.0% |
| **Total** | **2,342** | **2,494** | **2,489** | **2,613** | **2,827** | **2,887** | **4.8%** |
| **Total market capitalization of listed companies (in billions of RMB, except percentages)** | | | | | | | |
| Main boards | 17,989.5 | 19,282.2 | 18,682.1 | 29,963.8 | 37,144.0 | 31,701.0 | 19.9% |
| Shenzhen Stock Exchange | 3,151.9 | 3,412.4 | 3,565.6 | 5,566.4 | 7,624.0 | 6,609.0 | 24.7% |
| Shanghai Stock Exchange | 14,837.6 | 15,869.8 | 15,116.5 | 24,397.4 | 29,519.4 | 25,092.0 | 18.8% |
| SME Board | 2,742.9 | 2,880.4 | 3,716.4 | 5,105.8 | 10,395.0 | 9,412.0 | 39.5% |
| ChiNext Board | 743.4 | 873.1 | 1,509.2 | 2,185.1 | 5,591.6 | 5,179.3 | 65.6% |
| **Total** | **21,475.8** | **23,035.8** | **23,907.7** | **37,254.7** | **53,130.4** | **46,292.0** | **25.4%** |

*Source*: The Shanghai Stock Exchange and the Shenzhen Stock Exchange

The number of individual investors and institutional investors amounted to approximately 98.8 million and 28.4 thousand respectively as at the end of 2015 and approximately 108.0 million and 30.4 thousand respectively as at June 30, 2016.

**Bond market**

The PRC bond market has developed significantly since 2005. This has increased the scale of direct financing in China. The total outstanding amount of bond issuance by PRC enterprises increased from RMB4,771.8 billion as of December 31, 2011 to RMB15,192.1 billion as of June 30, 2016. The PRC bond market has diversified product offerings, primarily including financial bonds, subordinated bonds, corporate bonds, enterprise bonds, medium-term notes, asset-backed bonds, convertible bonds and exchangeable bonds. The following table sets forth the outstanding amount of certain major types of bond issuance by PRC enterprises as of the end of the periods indicated:

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 | CAGR 2011-2015 |
|---|---|---|---|---|---|---|---|
| | (in billions of RMB, except percentages) | | | | | | |
| Financial bonds/subordinated bonds | 1,069.1 | 1,462.2 | 1,655.1 | 2,288.5 | 3,421.4 | 3,707.8 | 33.8% |
| Corporate bonds | 289.7 | 550.2 | 699.8 | 768.3 | 1,695.0 | 3,034.2 | 55.5% |
| Enterprise bonds | 1,309.9 | 1,925.8 | 2,333.7 | 2,923.8 | 3,049.8 | 3,194.0 | 23.5% |
| Medium-term notes | 1,979.9 | 2,511.4 | 3,003.7 | 3,390.0 | 4,175.9 | 4,437.0 | 20.5% |
| Asset-backed bonds | 6.9 | 32.2 | 44.6 | 312.1 | 655.9 | 750.0 | 212.2% |
| Convertible bonds/exchangeable bonds | 116.3 | 125.5 | 160.8 | 122.3 | 41.1 | 69.0 | (22.9%) |
| **Total** | **4,771.8** | **6,607.3** | **7,897.7** | **9,805.0** | **13,039.1** | **15,192.1** | **28.6%** |

*Source*: Wind Info

On January 15, 2015, the CSRC issued the "Administrative Measures for the Issuance and Trading of Corporate Bonds" (《公司債發行與交易管理辦法》), which expanded the scope of issuers and trading markets and streamlined approval procedures for corporate bonds issuance. These measures stipulate that the public issuance of corporate bonds requires regulatory approval while the private placement of corporate bonds requires only regulatory filing. As a result, it is believed that financing through issuing bonds will be more common for companies in China.

**Funds market**

The PRC funds market has experienced significant growth in recent years driven by the favorable regulatory environment and accumulation of personal wealth. According to the Asset Management Association of China, as of December 31, 2015, the aggregate size of mutual funds managed by fund management companies amounted to RMB8.4 trillion. The "Measures for the Registration of Private Investment Funds Managers and Filing of Funds (Trial Implementation)" (《私募投資基金管理人登記和基金備案辦法 (試行) 》) became effective on February 7, 2014 to stipulate the procedures and requirements for the registration of private investment fund managers and filing of private investment funds. As a result, the private funds market in the PRC has become more standardized and the market scale has been expanding. As of December 31, 2015, 25,005 private investment fund management companies have registered with the Asset Management Association of China, and the subscribed assets managed by them amounted to RMB5.1 trillion.

**Derivatives market**

Since its launch in the 1990s, the PRC derivatives market has experienced significant growth. Currently, the PRC standard derivatives market available for securities firms consists primarily of commodity futures, financial futures and options. The PRC commodity futures market has developed rapidly. In April 2010, four CSI 300 Index futures contracts started trading on the China Financial Futures Exchange, becoming the first financial futures traded in the PRC. On February 9, 2015, the Shanghai Stock Exchange 50 ETF option was launched. Affected by the volatile PRC stock market in 2015 and early 2016, the CSI 300 Index plummeted by 15.5% in the first half of 2016. The following table sets forth the total trading turnover of major types of derivatives traded on PRC exchanges for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 | CAGR 2011-2015 |
|---|---|---|---|---|---|---|---|
| | (in billions of RMB, except percentages) | | | | | | |
| Commodity futures | 93,747.6 | 95,282.5 | 126,467.3 | 127,969.7 | 136,470.7 | 90,021.2 | 9.8% |
| Financial futures | 43,765.9 | 75,840.7 | 141,006.6 | 164,017.0 | 417,760.5 | 9,320.1 | 75.8% |
| Stock index futures | 43,765.9 | 75,840.7 | 140,700.2 | 163,138.5 | 411,749.8 | 5,230.9 | 75.1% |
| Treasury bond futures | — | — | 306.4 | 878.5 | 6,010.7 | 4,089.2 | N/A |
| Total | **137,513.4** | **171,123.1** | **267,474.0** | **291,986.7** | **554,231.2** | **99,341.3** | **41.7%** |

*Source:* China Futures Association

**Other Securities Market**

***NEEQ***

In 2006, the CSRC launched the OTC Equity Market to augment the main boards, the SME Board and the ChiNext Board. In 2013, the NEEQ was established and expanded its coverage nationwide to provide share transfer and issuance services to non-listed joint stock companies, offering more opportunities for small- and micro-sized enterprises to participate in the capital markets. As of December 31, 2015, a total of 5,129 companies were quoted on NEEQ with a total market capitalization of approximately RMB2,460 billion, representing an increase of 226% and 435% as compared with those numbers in the corresponding period of 2014, respectively.

***Regional Equity Exchanges***

Regional equity exchanges were launched in 2013 with a view to developing a multi-tiered structure equity market in China. Regional equity exchanges have been developing rapidly in recent years and launched various innovative financial services for scientific and innovative enterprises, playing a significant role in providing share transfer services for non-listed small and micro enterprises. As of December 31, 2015, there were a total of 37 regional equity exchanges across the country with 3,375 quoted companies in aggregate. The amount of financing from regional equity exchanges amounted to RMB433.2 billion as at the end of 2015.

***OTC Market***

PRC securities firms were licensed to engage in OTC transactions in 2012. In August 2014, the SAC permitted securities firms to issue, sell or transfer a variety of products on the OTC market, including asset management schemes raised privately or underwritten by securities firms and their subsidiaries, structured notes, and products developed by banks, insurance companies or trust companies and issued, sold and transferred through securities firms. With the improvement of the regulatory environment, diversification of products and expansion of market scale, the OTC business of the securities firms in the PRC achieved a steady development, leading to an important contribution to the construction of multi-tiered capital markets. According to the statistics from China Securities Capital Market Development Monitoring Center, as of the end of 2015, a total of 42 securities firms in the PRC were licensed to conduct pilot OTC business, mainly involving fix-income business and the financing-related financial products. As at the end of 2015, the number of trading accounts for institutional investors and individual investors amounted to 7,617 and approximately 619.9 thousand, respectively; and the total amount of the issued financial products was RMB783.6 billion.

***Inter-institutional market***

The inter-institutional quoting and service system for private equity products is an electronic platform to provide quoting, offering, transfer and related services of private equity products for institutional investors. It underwent an accelerated development during the year of 2015, resulting from the formulation of various regulations and guidelines in relation to asset-backed securities, private placement of corporate bonds, quotation services and private equity transactions. With the rapid growth in number of participants' accounts, diversification of products and expansion of market scale of the inter-institutional market, the inter-institutional market has become an important composition of the multi-level OTC market. As of the end of 2015, there were 64 institutions, including 46 securities firms, submitted a total of 279 initial filings; and the participants' accounts of the inter-institutional market increased from 229 in the beginning of 2015 to 1,484 in the year end, representing a grow rate of 548%.

## OVERVIEW OF THE PRC SECURITIES INDUSTRY AND ITS COMPETITIVE LANDSCAPE

### Overview

In recent years, the PRC securities industry has grown substantially, in-line with the development of the PRC capital markets. According to the SAC, there were 125 registered securities firms in the PRC as of December 31, 2015. From December 31, 2011 to December 31, 2015, the PRC securities industry's total assets increased from RMB1.6 trillion to RMB6.4 trillion, and the industry's total net assets increased from RMB630.3 billion to RMB1,451.5 billion.

According to the SAC, from 2011 to 2015, the PRC securities industry's total revenue increased from RMB136.0 billion to RMB575.2 billion, and the industry's total net profit increased from RMB39.4 billion to RMB244.8 billion. Securities firms derive revenue primarily from investment banking, brokerage (including margin financing and securities lending business), proprietary trading and asset management businesses and revenue from the above segments representing approximately 9.2%, 57.1%, 24.6% and 4.8% of the total revenue of the industry in 2015, respectively. Brokerage business has been the main source of revenue and the innovative businesses have grown rapidly in recent years.

Intense competition exists in the PRC securities industry. The securities market in the PRC is not highly concentrated. In 2015, the total revenue of the top ten PRC securities firms accounted for 44.4% of the industry's aggregate revenue in the PRC. Each business segment within the PRC securities industry has its own unique competitive landscape. Securities firms also face different levels of cross-business competition with other institutions in the PRC financial market such as banks, insurance companies and trust companies. With the development of Internet finance, securities firms will also face competition from Internet companies with online finance businesses.

The following table sets forth certain information of the top 10 PRC securities firms in terms of total assets as of December 31, 2015:

| | As of December 31, 2015 | | | For the year ended December 31, 2015 | |
|---|---|---|---|---|---|
| | Total Asset | Net Assets | Net Capital | Revenue | Net Profit |
| | (in millions of RMB) | | | | |
| CITIC Securities Company Limited | 484,126 | 116,208 | 89,415 | 34,093 | 15,098 |
| Haitong Securities Company Ltd | 385,693 | 101,120 | 85,521 | 25,692 | 13,516 |
| GF Securities Co., Ltd. | 378,499 | 72,337 | 64,346 | 27,243 | 11,255 |
| Guotai Junan Securities Co. Ltd | 351,567 | 87,532 | 77,336 | 29,829 | 13,713 |
| Huatai Securities Co., Ltd. | 323,550 | 74,445 | 52,362 | 21,611 | 9,145 |
| China Galaxy Securities Co., Ltd. | 282,624 | 56,258 | 60,638 | 24,924 | 9,558 |
| Shenwan & Hongyuan Securities Co., Ltd. | 276,793 | 46,790 | 33,000 | 23,339 | 10,046 |
| China Merchant Securities Co., Ltd. | 269,665 | 46,274 | 37,154 | 23,184 | 10,153 |
| Guosen Securities Co., Ltd | 219,645 | 48,221 | 47,839 | 27,361 | 13,411 |
| Orient Securities Company Limited | 180,594 | 33,875 | 25,759 | 12,630 | 6,818 |

*Source:* SAC

*Note:* the financial information set out in this table is prepared under the PRC GAAP.

## Secondary Market

The secondary market business primarily consists of securities brokerage, capital-based intermediary business and futures brokerage.

### *Securities Brokerage*

The securities brokerage business has been greatly affected by the volatile PRC stock market in 2015. The total trading volume of Shanghai Stock Exchange and Shenzhen Stock Exchange increased from RMB78,861.1 billion in 2014 to RMB269,953.7 billion in 2015, but it decreased to RMB69,150.9 billion in the first half of 2016. Meanwhile, the development of Internet finance business providing new technologies including convenient applications and customer behavior data analysis is changing the competitive landscape of traditional brokerage business model and resulting in decreasing brokerage commission rates.

The following table sets forth the average daily trading turnover of stocks and funds and bonds on the Shanghai Stock Exchange and the Shenzhen Stock Exchange for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 |
|---|---|---|---|---|---|---|
| | | | (in billions of RMB) | | | |
| Stocks and funds...... | 174.9 | 132.4 | 202.3 | 321.9 | 1,106.4 | 576.3 |
| Bonds ...................... | 88.7 | 166.0 | 285.0 | 381.7 | 539.2 | 840.3 |

*Source:* The Shanghai Stock Exchange and the Shenzhen Stock Exchange

### *Capital-based Intermediary Business*

Currently, capital-based intermediary business in the PRC market primarily includes margin financing and securities lending, stock-based lending and stock repurchases. Since March 2010, when the CSRC permitted securities firms to engage in margin financing and securities lending, the outstanding balance of margin financing and securities lending has grown from RMB38.2 billion as of December 31, 2011 to RMB853.6 billion as of June 30, 2016. The following table sets forth the total balance of margin financing and securities lending outstanding in the PRC as of the end of the periods indicated:

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 |
|---|---|---|---|---|---|---|
| | | | (in billions of RMB) | | | |
| Balance of margin financing and securities lending.. | 38.2 | 89.5 | 346.5 | 1,025.7 | 1,174.3 | 853.6 |

*Source:* Wind Info

***Futures Brokerage***

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

**Investment Banking**

The investment banking business primarily consists of equity and debt underwriting and financial advisory services.

***Equity Underwriting***

Equity underwriting services mainly comprise IPOs, placements and rights issues. The following table sets forth the amount of capital raised from equity offerings in the PRC for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 |
|---|---|---|---|---|---|---|
| | | | (in billions of RMB) | | | |
| IPOs | 272.0 | 101.8 | — | 78.7 | 156.9 | 30.9 |
| Follow-on equity offerings | 219.9 | 244.0 | 267.4 | 419.1 | 792.5 | 526.3 |
| **Total** | **491.9** | **345.8** | **267.4** | **497.8** | **949.3** | **557.3** |

*Source:* Wind Info and Dealogic

***Debt Underwriting***

Capital raised from bond issuances underwritten by PRC securities firms increased from RMB1,559.1 billion in 2011 to RMB4,720.6 billion in 2015, representing a CAGR of 31.9%. The following table sets forth the amount of capital raised from debt issuances underwritten in the PRC for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 |
|---|---|---|---|---|---|---|
| | | | (in billions of RMB) | | | |
| Financial bonds/subordinated bonds.................... | 405.3 | 472.2 | 325.9 | 826.5 | 1,420.6 | 519.2 |
| Corporate bonds....... | 129.1 | 262.3 | 170.2 | 140.8 | 1,033.7 | 1,435.5 |
| Eenterprise bonds..... | 248.5 | 649.9 | 475.2 | 697.2 | 342.1 | 325.7 |
| Medium-term notes .. | 733.6 | 855.9 | 697.9 | 978.1 | 1,276.9 | 584.8 |
| Asset-backed bonds.. | 1.3 | 28.1 | 28.0 | 331.0 | 613.4 | 298.2 |
| Convertible bonds/exchangeable bonds.................... | 41.3 | 16.4 | 54.7 | 38.1 | 33.8 | 28.6 |
| **Total**........................ | **1,559.1** | **2,284.9** | **1,751.9** | **3,011.6** | **4,720.6** | **3,192.0** |

*Source:* Wind Info

***Financial Advisory***

Financial advisory services primarily comprise M&A and corporate restructuring advisory services. The transformation and upgrading of the PRC's industry structures have increased demand for M&A, driving growth in the PRC's M&A and restructuring markets. The following table sets forth the total value of M&A transactions in the PRC for the periods indicated.

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 |
|---|---|---|---|---|---|---|
| | | | (in billions of RMB) | | | |
| Total value of M&A transactions in the PRC .................... | 989.8 | 938.9 | 1,240.9 | 2,226.5 | 3,890.1 | 1,420.2 |

*Source:* Dealogic

**Asset Management**

According to the applicable PRC laws and regulations, securities companies may undertake targeted asset management business for single client, collective asset management businesses for a group of clients and specialized asset management business for selected clients. And securities companies and subsidiaries of fund management companies which are qualified for client asset management are allowed to conduct asset securitization.

Driven by the increased market demand for wealth management and other financial services, coupled with the business transformation and development needs of PRC securities firms to achieve sustainable and stable growth, the asset management business of PRC securities firms has developed rapidly with total AUM increasing from RMB281.9 billion as of December 31, 2011 to RMB14.8 trillion as of June 30, 2016. The following table sets forth the total AUM of PRC securities firms as of the end of the periods indicated:

| | 2011 | 2012 | 2013 | 2014 | 2015 | Six months ended June 30, 2016 |
|---|---|---|---|---|---|---|
| | | | (in billions of RMB) | | | |
| AUM ...................... | 281.9 | 1,890.0 | 5,195.1 | 7,970.0 | 11,894.8 | 15,000.3 |

*Source:* Asset Management Association of China

**Proprietary Trading**

Since 2011, the permitted investment scope for PRC securities firms' proprietary trading business has been substantially expanded so as to include securities traded on the exchanges, the OTC markets and the interbank market, as well as financial products of commercial banks and trust schemes. The trading strategies and investment instruments available for PRC securities firms have become more diverse with the launch of stock index futures, treasury bond futures and options. The introduction of market-making services for ETF, options and shares quoted on the NEEQ enhances the trading functions of securities firms and their liquidity risk management capabilities. For the year of 2015, the investment income (including fair value changes) of the PRC securities industry was RMB141.4 billion as compared to RMB5.0 billion in 2011, representing a CAGR of 130.9%.

**Other Businesses**

***OTC business***

In 2012, there were only seven PRC securities firms licensed to engage in OTC transactions. In August 2014, the SAC permitted securities firms to issue, sell or transfer a variety of products on the OTC market, including asset management schemes raised privately or underwritten by securities firms and their subsidiaries, structured notes, and products developed by banks, insurance companies or trust companies and issued, sold and transferred through securities firms. As of December 31, 2015, there were 42 securities firms in the PRC licensed to engage in OTC transactions.

***Private Equity***

Private equity investments and management by securities firms in China have grown significantly in recent years. In July 2011, the CSRC issued guidelines to permit private equity investment subsidiaries of PRC securities firms to raise funds through private placements and engage in angel, venture capital, pre-IPO and M&A investments. It is expected that these guidelines will drive the transformation of the private equity business from a pure principal investment model to an investment management model. According to the SAC, as of December 31, 2015, there were 62 PRC securities firms that had established investment subsidiaries to conduct private equity business, and 178 private equity funds had been established with the total raised funds amounting to RMB119.3 billion.

***Alternative Investment***

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

**DEVELOPMENT TRENDS IN THE PRC CAPITAL MARKETS AND SECURITIES INDUSTRY**

The PRC securities industry is undergoing accelerated reforms with innovations, accompanying with the following characters:

- **The securities industry, as the primary channel for direct financing, has broad and bright prospects**. The PRC economic structure has been further optimized and upgraded following the introduction of various financial reforms, including marketization of interest rate and the establishment of multi-tiered capital markets. Those reform measures contribute to the further expansion of direct financing scale and continuously stimulate market transactions activities, which in turn, promote the capital market to play more dominant role in resource allocation and enhance the position of securities firms in the financial market.

- **The PRC securities industry is also facing a series of challenges**. The PRC securities firms generally derive most of their revenues through channel businesses such as brokerage and underwriting. A largely homogenous business model in the traditional channel business and services has led to intense price competition and downward pressure on commission rates in recent years. Meanwhile, the gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC financial industry have brought new competitors into the securities industry, resulting in competition faced by securities companies from other financial institutions, such as commercial banks, insurance companies and trust companies. In addition, the development of Internet finance business providing new technologies including convenient applications and customer behavior data analysis is also changing the competitive landscape of traditional brokerage business model.

- **Industry consolidation continues**. The concentration rate of PRC securities industry is still relatively low as compared to in other markets. Traditional monopoly advantage on license enjoyed by PRC securities firms has been greatly challenged due to popularization of new technologies and industry innovations. Further industry consolidation is imminent.

- **Securities firms have started to focus more on wealth management businesses**. Driven by the downward pressure on commission rates, changes in competition landscape and increasing diversification of customer demand, PRC securities firms are constantly exploring differentiated business models and developing new sources for revenue. With China's continuing economic development, rapid accumulation of household wealth, constant growing of the number of high net wealth individuals and investable assets, individual investors, while dominating trading in the secondary market, show increasing demand for high-end and customized professional wealth management services. The capability of securities firms to provide the customers with one stop wealth management solutions will become a key factor in successfully enhancing their position in the market.

## 5. REGULATION OVERVIEW

### REGULATORY ENVIRONMENT OF THE PRC

#### Overview

CISC mainly conducts business in China and all of CISC's operations in China are subject to the applicable PRC laws, administrative regulations, departmental regulations and other regulatory documents which mainly aim to protect the interest of customers and investors of securities companies. Set forth below is the summary of principal laws and regulations applicable to the business of CISC, rather than a detailed description of all the laws and regulations which the business of CISC needs to comply with. In recent years, in tandem with the reform in securities and financial sectors, the laws and regulations on the securities and finance industries have been undergoing constant changes. Changes in the applicable laws and regulations or regulatory policies from time to time may have significant impact on the securities industry.

#### Major Regulatory Authorities and Relevant Organizations

***CSRC***

The CSRC is a supervision and management body responsible for the supervision of the securities and futures markets in China, maintaining the order thereof and ensuring their lawful operation in accordance with the relevant laws and regulations and the authorization of the State Council. According to the Securities Law, the Law of the People's Republic of China on Securities Investment Funds (中華人民共和國證券投資基金法) ("Securities Investment Fund Law") and the Regulations on the Administration of Futures Trading (期貨交易管理條例) ("Regulations of Futures Trading"), the main duties of the CSRC are as follows:

- To enact regulations and rules in relation to the supervision and management of the securities, securities investment funds and futures markets, and to exercise the rights of approval, verification or registration according to law;

- To supervise and manage the issuance, listing, trading, registration, deposit and settlement of securities and the listing, trading, settlement, delivery of futures and related activities according to law;

- To supervise and manage the securities business activities of the securities issuers, listing companies, securities companies, securities investment fund management companies and other fund managers and custodians, securities service organizations, stock exchanges and securities registration and settlement organizations according to law; and to supervise and manage futures business activities of market-related participants, including the futures exchanges, futures companies, other futures business institutions, non-futures companies clearing members, futures margin security depository monitoring institutions, futures margin depository banks, delivery warehouses, etc.;

- To enact qualification standards and practice codes for securities business personnel, fund practitioners and futures practitioners according to law, and supervise their implementation;

- To supervise and inspect the disclosure of information relating to the issuance, listing and trading of securities, the disclosure of fund information, and information of futures trading according to law;

- To regulate and supervise the activities of the SAC, the funding association of China and the China Futures Association according to law;

- To investigate and punish activities in violation of laws and administrative regulations in relation to supervision and management of the securities and futures markets according to law; and

- To perform other duties stipulated by the applicable laws and administrative regulations.

***Stock Exchange***

Under the Securities Law and the Measures for the Administration of Stock Exchanges (證券交易所管理辦法), a stock exchange is a non-profit self-regulatory legal entity which provides venues and facilities for centralized trading of securities and organizes and supervises trading of securities. The China's two major stock exchanges are the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

The main duties of a stock exchange are as follows:

- To provide venues and facilities for trading of securities;

- To enact operating rules for stock exchanges;

- To accept listing applications and to arrange listing of securities;

- To organize and supervise trading of securities;

- To supervise its members;

- To supervise the listed companies;

- To establish securities registration and settlement organizations;

- To manage and announce market information;

- To handle suspension of listing, resumption of listing and delisting of listed shares and corporate bonds;

- To adopt measures of technical trading halt or to decide to temporarily close the market in case of emergency; and

- To perform other duties as permitted by the CSRC.

***Futures Exchange***

Under the Regulations of Futures Trading (期貨交易管理條例) and the Measures for the Administration of Futures Exchanges (期貨交易所管理辦法), a futures exchange is a non-profit legal entity which provides venues and facilities for centralized trading of futures, organizes and supervises trading of futures, and exercises self-regulatory management according to its articles of association and trading rules. The main duties of a futures exchange are as follows:

- To provide venues, facilities and services for trading;

- To design contracts and arrange for listing of contracts;

- To organize and supervise the trading, clearing and settlement and delivery of futures;

- To provide centralized guarantees for contract performance in futures tradings;

- To supervise and manage its members in accordance with its articles of association and trading rules;

- To enact and implement the trading rules and implementing regulations of the futures exchange;

- To release market information;

- To regulate its members and their clients, designated delivery warehouses, futures margin depository banks and the futures businesses of other participants in the futures market;

- To investigate and punish irregularities; and

- To perform other duties as specified by the futures supervision and administration authorities of the State Council.

***The SAC***

The SAC is a self-regulatory organization of the securities industry. It is a non-profit social organization with legal person status, subject to the guidance and supervision of the CSRC. The SAC regulates the securities industry through its general assembly of members consisting of securities companies and other members. According to the Securities Law, a securities company shall join the SAC. The main duties of the SAC include enactment of the rules to abide by its members, and supervision and inspection of the conducts of its members.

***The Asset Management Association of China (AMAC)***

Under the Securities Investment Fund Law (證券投資基金法), the AMAC is a self-regulatory organization of the securities investment fund industry and a non-profit social organization with legal person status. Fund managers and fund custodians shall join the AMAC. The main duties of the AMAC include enactment and implementation of self-regulatory rules, and supervision and inspection of the practices of its members and practitioners.

***China Futures Association (CFA)***

Under the Administration Regulations of Futures Trading (期貨交易管理條例), the CFA is a self-regulatory organization of the futures industry and a non-profit social organization with legal person status. The CFA is subject to the guidance and supervision of the CSRC. Futures companies and the other institutions engaged in futures trading shall join the CFA. The main duties of the CFA include the formulation of self-regulatory rules to abide by its members and supervision and inspection of the conducts of its members.

***Other Organizations***

Other organizations relating to CISC's business and operating activities primarily include CSDCC, 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. (中國期貨保證金監控中心有限責任公司), China Securities Finance, National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) and National Equities Exchange and Quotations Co. Ltd. (全國中小企業股份轉讓系統有限責任公司).

**Industry Entry**

***Industry Entry Requirements For Securities Companies***

(1) *Establishment*

The Securities Law (證券法) and the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例) stipulate the authorized scope of business of securities companies and establish the industry entry standard and other requirements. The establishment of a securities company must be approved by the CSRC, and the securities business permit must be obtained subject to the following conditions:

- The articles of association of the proposed securities company shall comply with laws and administrative regulations;

- The major shareholders of the proposed securities company shall have sustainable profitability, good reputation and no record of serious violation of laws or regulations during the past three years, and shall have net assets of not less than RMB200.0 million;

- It shall have the registered capital required by the Securities Law. For a securities company engaging in the business of securities brokerage, securities investment consulting and financial advisory business in relation to securities trading and securities investment, the minimum registered capital shall be RMB50 million; for a securities company engaging in one of the businesses of securities underwriting and sponsorship, proprietary securities trading, securities asset management and other securities businesses, the minimum registered capital shall be RMB100 million; for a securities company engaging in two or more of the businesses of securities underwriting and sponsorship, proprietary securities trading, securities asset management and other securities businesses, the minimum registered capital shall be RMB500 million;

- The directors, supervisors and senior management of the proposed securities company shall be qualified, the practitioners shall have securities practice qualification and no less than three of senior management should have at least two years of experience in senior management in the securities industry;

- It shall have effective risk management system and internal control systems;

- It shall have suitable premises and facilities for operation; and

- Other conditions stipulated by laws, administrative regulations and the CSRC.

The Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) clearly set out the conditions and procedures for establishment of a foreign-invested securities company. Unless with the consent of the PRC Government, a foreign-invested securities company shall meet the following conditions:

- The aggregate (including direct holding and indirect control) shareholdings of foreign shareholders or their interests in a foreign-invested securities company shall not exceed 49%;

- For foreign investors who lawfully hold 5% or more of the shares in a listed domestically-funded securities company through securities trading on a security exchange or who jointly hold more than 5% of the shares of a listed domestically-funded securities company with others by agreement and other arrangement, approval from the CSRC must be obtained, and the relevant conditions for foreign shareholders of foreign-invested securities companies must be satisfied; and

- The shareholdings held (including direct holding and indirect control) by a single foreign-investor in a listed domestically-funded securities company shall not exceed 20%. The shareholdings held (including direct holding and indirect control) by all foreign investors in a listed domestically-funded securities company shall not exceed 25%.

(2) *Business Scope*

According to the Securities Law, upon approval by the CSRC, a securities company can engage in some or all of the following businesses:

- Securities brokerage;
- Securities investment consulting;
- Financial advisory business in relation to securities trading and securities investment activities;
- Securities underwriting and sponsorship;
- Proprietary securities trading;
- Securities asset management; and
- Other securities businesses.

According to the Tentative Provisions for the Examination and Approval of the Business Scope of Securities Companies (證券公司業務範圍審批暫行規定), securities companies which are under common control of the same entity or individual control or mutual control of each other shall not engage in the same business, unless the relevant companies adopt effective measures to clearly define their respective operating regions or target clients and there shall be no competition between the companies. Unless otherwise specified by the CSRC, the scope of business of the securities company upon its establishment is subject to the approval of the CSRC in accordance with the statutory provisions and no more than four types of business of such company shall be approved. The securities company shall obtain approval from the CSRC for any change in the scope of business, however, the number of additional types of business applied for shall not exceed two. Subject to the approval by the CSRC, a securities company may operate the business not clearly stated in the Securities Law, the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) and the rules and regulations of the CSRC, which are referred to as innovative business.

(3) *Material Changes*

According to the Securities Law (證券法), approval from the CSRC shall be obtained for the following material changes of a securities company: the establishment, acquisition or de-registration of a branch; change in the scope of business; increase in registered capital and material adjustment to the equity structure; decrease in registered capital; change of any shareholder holding more than 5% of the equity interests and *de facto* controller; change in important articles of the articles of association; any merger, division, cessation, dissolution and bankruptcy.

According to the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例), any entity or individual holding or actually controlling more than 5% equity interests of a securities company without approval shall be ordered by the securities regulatory authority of the State Council for rectification within a prescribed period. Before the rectification, such equity interests do not carry voting rights.

In addition, according to Guidelines No. 10 on Administrative Approval for Securities Companies — 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), if an enterprise directly or indirectly owned by a foreign investor invests in a securities company, the indirect equity interest of the foreign investor in the securities company as calculated based on equity penetration 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 of the following conditions are satisfied:

- The foreign investor indirectly holds equity interest 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 where a foreign investor indirectly controls the equity interest of such securities company through controlling the listed company and violates the opening-up policy of China, the violation shall be rectified within a specified period. The relevant equity interest shall carry no voting rights before it is rectified; and
- The foreign investor shall be prohibited from establishing any joint venture securities company with a domestic securities company or making strategic investment in a listed securities company as long as the foreign investor indirectly owns more than 5% of the equity interest in one or more domestic securities companies.

The CSRC has gradually authorized its local branches to review and approve certain kinds of applications for material changes by securities companies. According to the Decision on Authorization of Local Branches to Review and Approve Items Requiring Administrative Permission of Certain Securities Institutions (關於授權派出機構審核部分證券機構行政許可事項的決定) and the Decision of the State Council in Relation to the Cancellation and Adjustment of the Sixth Group of Items Requiring Administrative Approval (國務院關於第六批取消和調整行政審批項目的決定) (Sixth Decision of the State Council), the CSRC's local branches are formally authorized to review and approve the following material changes of securities companies:

- Change of important articles of the articles of association;
- Establishment, acquisition or de-registration of a branch;
- Some items regarding change of the registered capital of a securities company, including increase in capital of unlisted securities companies which involves review of qualification of shareholders or the de facto controller, increase in capital of unlisted securities companies which involves the change of de facto controller, controlling shareholder or the largest shareholder of a securities company, decrease in capital of an unlisted securities company;

- A change of shareholders with more than 5% of shareholdings and de facto controller of an unlisted securities company; and

- Addition or reduction of the business of securities brokerage, securities investment consulting and financial advisory business in relation to securities trading and securities investment, proprietary securities trading, securities asset management and securities underwriting.

(4) *Establishment of Subsidiaries, Branch Offices and Securities Branches*

According to the Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities Companies (證券公司設立子公司試行規定), subject to the approval of the CSRC, securities companies may establish wholly owned subsidiaries and also invest jointly in the establishment of subsidiaries with other investors who meet the required conditions for shareholders of securities companies stipulated in the Securities Law. However, operation of similar businesses that involve conflicts of interest or competition is not permitted for a securities company and its subsidiaries, or for subsidiaries that are under common control of the same securities company. A subsidiary cannot directly or indirectly hold equity interest or shares of its controlling shareholder, or of subsidiaries under the common control of the same securities company, or otherwise invest in its controlling shareholder or subsidiaries under the common control of the same securities company. A subsidiary referred to in such requirements shall mean a securities company established in accordance with the Company Law and the Securities Law and controlled by a securities company, and engage in one or more securities businesses approved by the CSRC. Where a securities company controls other securities companies through establishment, transfer and subscription of equity interest and other means, such company shall meet the relevant requirements within 5 years from the date of control.

Furthermore, pursuant to the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and the 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), a securities company may establish subsidiaries to invest in financial products other than those set forth in the List of Securities Investment Products for the Proprietary Trading of Securities Companies (證券公司證券自營投資品種清單). To establish such subsidiaries, a securities company shall be qualified for the proprietary trading business and obtain the prior approval from the branch of the CSRC where the company is located according to provision 13 of the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) relating to changes of important provisions of the articles of association. A securities company shall not provide financing or guarantee for such subsidiaries.

In accordance with the Regulatory Requirements on Branches of Securities Companies (證券公司分支機搆監管規定), branches of a securities company shall refer to the branch offices and securities branches established by the securities company in the PRC for business operation. Establishment and acquisition of branches by a securities company shall fulfill the relevant conditions, and approval from the securities regulatory bureaus authorized by the CSRC must be obtained for the establishment, acquisition and de-registration of branches by a securities company.

***Industry Entry Requirements for Direct Investment Companies***

(1) *Establishment*

According to the Rules for the Direct Investment Business of Securities Companies (證券公司直接投資業務規範) issued by the SAC, to conduct direct investment business a securities company shall establish its direct investment business subsidiary (the "direct investment subsidiary") in accordance with the relevant regulations issued by regulatory authorities. The securities company shall not conduct direct investment business in other forms.

(2) *Business Scope*

According to the Rules for Direct Investment Business of Securities Companies (證券公司直接投資業務規範) released by the SAC, a direct investment subsidiary may conduct the following business:

- Equity investment or debt investment in enterprises, or investment in other investment funds relating to equity investment and debt investment with its own funds or via establishment of direct investment funds;
- Provision of financial advisory services on equity investment and debt investment to clients; and
- Other businesses as permitted by the CSRC.

A direct investment subsidiary shall not conduct such securities business which shall be conducted by a securities company according to laws.

***Industry Entry Requirements for Futures Companies***

(1) *Establishment*

Pursuant to the Regulations of Futures Trading (期貨交易管理條例) and the Measures for the Supervision and Administration of Futures Companies (期貨公司監督管理辦法), the establishment of a futures company requires approval from the CSRC and the requirements for such establishment include:

- Minimum registered capital of RMB30 million;
- Directors, supervisors and senior management shall be qualified for their positions while practitioners shall have futures practice qualifications. The number of senior management staff with senior management qualifications shall not be less than three, and the number of staff with futures practice qualifications shall not be less than fifteen;
- The articles of association of the company shall comply with the requirements of laws and administrative rules;

- Major shareholders and the de facto controller shall have sustained profitability and good reputation, without record of material violation of laws or regulations in the past three years;

- It shall have suitable premises and operation facilities;

- It shall have sound risk management and internal control systems; and

- Other requirements 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), 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. However, the following cases are not included in the scope of number of controlling interests and equity interests in futures companies: (1) directly and indirectly holding less than 5% (excluding 5%) equity interest in a futures company; (2) same entity holding controlling interests and equity interests in a futures company through directly or indirectly holding the equity interest in such securities company; (3) Other circumstances recognized by the CSRC.

Pursuant to The State Council's Decision on the Cancellation and Adjustment of a Series of Items Requiring Administrative Approval (國務院關於取消和調整一批行政審批項目等事項的決定) (Guo Fa [2015] No. 11), the CSRC has already adjusted such prior examination and approvals for the establishment of futures companies to post examination and approvals.

(2) *Material Changes*

Pursuant to the Measures for the Supervision and Administration of Futures Companies (期貨公司監督管理辦法), approval from the CSRC shall be obtained for change of shareholdings in a futures company in any of the circumstances below:

- Change of controlling shareholder or the largest shareholder;

- Shareholding of an individual shareholder or the aggregate shareholding of related shareholders to be increased to 100%;

- Shareholding of an individual shareholder or the aggregate shareholding of associated shareholders, either being or involving foreign shareholder(s), to be increased to 5% or above.

In addition, in case of shareholding of an individual shareholder or the aggregate shareholding of related shareholders to be increased to 5% or above, the futures company shall obtain approval from the local office of the CSRC.

Pursuant to the Decision of the State Council on the Sixth Group (國務院第六批決定), change of 5% or above in the shareholding of a futures company, which does not involve the addition of a new shareholder holding an equity interest of 5% or above and the controlling shareholder or the largest shareholder remains unchanged, no longer requires examination and approval.

Pursuant to The State Council's Decision on the Cancellation and Adjustment of a Series of Items Requiring Administrative Approval (國務院關於取消和調整一批行政審批項目等事項的決定) (Guo Fa [2014] No. 50), the CSRC's local branches have cancelled the administrative approval requirement for the establishment of domestic branches by futures companies.

**Regulation on Operations**

The current principal businesses operated by CISC include but not limited to: securities brokerage, proprietary securities trading, securities underwriting and sponsorship, securities asset management, securities investment consulting, financial advisory relating to securities trading and securities investment activities, agency sale of securities investment funds, agency sale of financial products, margin financing and securities lending, provision of introducing brokerage business for futures companies; futures brokerage, direct investment, asset management, etc.

*Securities Brokerage*

Pursuant to the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例) and the Provisions on Strengthening the Administration of Securities Brokerage Business (關於加强證券經紀業務管理的規定), securities companies shall comply with the following requirements when conducting securities brokerage business:

- Establish a comprehensive securities brokerage business management system, implement centralized and unified management on securities brokerage business;
- Objectively describe the business qualifications, responsibilities and scope of services of the company;
- Establish a comprehensive customer management and customer service system for the securities brokerage business, enhance investor education, protect the legitimate interests of customers;
- Establish a comprehensive personnel management and scientific and reasonable performance appraisal system for the securities brokerage business, regulate the conduct of personnel in the securities brokerage business;
- Establish a comprehensive securities sales department management system to ensure the compliance, stability, safety and operation of the securities sales department;

- Unify the establishment and management of information systems for, inter alia, customer accounts management, custodian of customer funds, agency trading, agency clearing and settlement, transaction risk monitoring and control in the securities brokerage business, data for each business should be kept in centralized storage;

- If the securities branches and employees of the securities business have breached the laws, administrative regulations, requirements of regulatory authorities and other administrative and management authorities, and self-disciplinary rules, securities brokerage business management system of securities companies, they shall be held liable by the securities companies for their respective responsibilities;

- If a securities company and securities sales department have breached the Provisions on Strengthening the Administration of Securities Brokerage Business (關於加强證券經紀業務管理的規定), the CSRC and its local branches shall impose regulatory measures depending on the circumstances and in accordance with the laws such as demand rectification, conduct regulatory interview, issue warning letters, suspend acceptance of documents relating to administrative permission, pass an order to punish the relevant persons, suspend approval of new business and restrict business activities. The violators of laws and regulations shall be imposed administrative punishments. If a criminal offence is committed, the case shall be transferred to the judicial authorities for processing.

***Proprietary Securities Trading***

Pursuant to the Securities Law, the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例) and the Guidelines on Proprietary Securities Trading Business of Securities Companies (證券公司證券自營業務指引), securities companies engaging in proprietary securities trading shall be limited to the trading of lawfully and publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authority of the State Council. A securities company that engages in proprietary securities trading business shall register its proprietary securities account under the Company's name. Risk control indicators, such as the proportion of the total value of proprietary securities to the net capital of the company, the proportion of the value of a single security to the net capital of the company, and the proportion of the amount of a single security to the total amount of issued securities, shall comply with the requirements of the CSRC. Pursuant to the Regulations on Investment Scopes of Principal Investment 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 its annex, the List of Investment Products of Principal Investment Business of Securities Companies (證券公司證券自營投資品種清單), a securities company engaging in proprietary securities trading business is permitted to trade the following securities:

- securities which have been or could be legally listed, traded and transferred on a domestic stock exchange;

- securities which have been listed and transferred on the NEEQ;

- private placement bonds which have been or could be legally listed and transferred on qualified regional equity trading markets, and shares which have been listed and transferred on qualified regional equity trading markets;

- securities which have been or could be legally traded on the domestic interbank market; and

- securities issued with the approval of or after filing with the national financial regulatory department or its authorized bodies and traded over the counter at domestic financial institutions.

A securities company may establish subsidiaries to conduct investments in financial products other than the categories specified in the List of Investment Products of Principal Investment Business of Securities Companies (證券公司證券自營投資品種清單). The securities company which establishes such subsidiaries shall be qualified to conduct proprietary securities trading, and shall comply with the provisions in its articles of association in respect of a change in material provisions pursuant to the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例) and obtain prior approval from the local branch of the CSRC at the place of residence of the securities company.

A securities company which is qualified to engage in proprietary securities trading business is allowed to conduct trading of financial derivative products, while a securities company without such qualification is only allowed to conduct trading of financial derivative products for the purpose of hedging exposure.

A sound investment decision-making and authorization mechanism with relatively concentrated and unified powers and duties shall be established by a securities company. The principal investment business, in principle, shall be established according to a three-tier system, namely, board of directors, investment decision-making body, and principal investment business department. The principal investment business department of a securities company shall be solely responsible for the management and operation of the principal investment business, and other non-principal investment business departments and branches shall not conduct a principal investment business in any form.

***Securities Underwriting and Sponsorship***

Pursuant to the Measures for the Administration of the Sponsorship of Securities Offering and Listing (證券發行上市保薦業務管理辦法), securities companies shall satisfy the relevant conditions and apply for the sponsoring institution qualification from the CSRC as required, so as to engage in securities issuance, listing and business sponsorship. Sponsoring institutions shall designate an individual who has obtained sponsor representative qualification to be responsible for sponsorship duties, so as to discharge sponsorship responsibilities. Issuers shall engage securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for initial public offering and listing of shares, issuance of new shares or convertible corporate bonds by listing companies, and other matters identified by the CSRC.

A securities company applying for the sponsoring institution qualification shall meet the following conditions:

- Its registered capital shall be no less than RMB100 million and net capital shall be no less than RMB50 million;
- It shall have sound corporate governance and internal control systems, and the risk control indicators shall comply with the relevant provisions;
- Its sponsor business department shall have comprehensive business procedures, internal risk assessment and control system, and reasonable internal structure, with proper research and marketing capabilities and other back office supports;
- It shall have a fine sponsor business team with reasonable professional structure, and the number of practitioners shall not be less than 35, of which no less than 20 personnel have been engaging in sponsor-related businesses in the past three years;
- No less than four personnel are qualified to be sponsor representatives;
- It has not been subject to any administrative penalties due to major violation of laws and regulations in the past three years; and
- It shall meet other requirements as required by the CSRC.

The Administrative Measures on Securities Issuance and Underwriting (證券發行與承銷管理辦法) sets out detailed provisions for quotation and pricing, offering of securities, underwriting of securities and information disclosure by the issuers, securities companies and investors during their participation in the securities issuance. The above-mentioned measures are applicable to the issuance of shares or convertible corporate bonds in China by issuers, underwriting of securities in China by the securities companies and subscription of securities issued in China by investors. Pursuant to these measures, securities companies shall submit offering and underwriting plans to the CSRC before engaging in any securities underwriting activities.

According to the Administrative Measures for Corporate Bonds Issuance and Trading (公司債券發行與交易管理辦法), unless otherwise provided, the issuance of corporate bonds shall be underwritten by securities companies which are qualified to provide securities underwriting services. Issuers shall engage bond trustees for bond holders, which can be the underwriter for the issuance or other institutions recognized by the CSRC.

According to the Regulations on Management of Enterprise Bonds (企業債券管理條例), issuance of enterprise bonds by enterprises shall be underwritten by securities trading institutions. Non-securities trading institutions or individuals are not allowed to conduct the underwriting and transfer of enterprise bonds.

According to the Provisional Business Rules for the National Equities Exchange and Quotations System (全國中小企業股份轉讓系統業務規則(試行)), NEEQ implements the qualified broker-dealer system. Qualified broker-dealers are securities companies which conduct all or some of the following businesses: recommendation business, brokerage business, market-making business and other businesses stipulated by National Equities Exchange and Quotations Co. Ltd. in the NEEQ. Securities companies that conduct relevant businesses in NEEQ shall apply for filing with National Equities Exchange and Quotations Co. Ltd.

***Asset Management***

According to the Administrative Measures on Client Asset Management of Securities Companies (證券公司客戶資產管理業務管理辦法), the Implementation Rules for the Targeted Asset Management Business of Securities Companies (證券公司定向資產管理業務實施細則), the Implementation Rules of the Collective Asset Management Business of Securities Companies (證券公司集合資產管理業務實施細則) and the Administrative Measures on the Asset Securitization Business of Subsidiaries of Securities Companies and 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), securities companies engaging in the client asset management business shall meet the relevant conditions and shall apply to the CSRC for qualification for the client asset management business. Securities companies may undertake targeted asset management businesses for individual clients, collective asset management businesses for multiple clients and special asset management businesses for specific objectives of clients. Securities companies engaging in client asset management business shall have sufficient understanding of clients, classify clients into various categories, comply with risk matching principles, recommend suitable products and services to clients, and not mislead clients to purchase products or services inconsistent with their risk tolerance level. They shall not raise funds from units and individuals other than qualified investors, and shall not advertise or make recommendations to uncertain subjects through public broadcasting media such as publications, radio, television and Internet or by way of seminars, briefings or analyst meetings, etc. Promotions of collective asset management schemes are prohibited if conducted by way of signing principal protected and minimum return guaranteed supplemental agreements or by improper acts such as untrue advertising, overstatement of expected return or commercial bribery.

According to the Administrative Measures on Asset Securitization 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), securities companies which are qualified for client asset management business and subsidiaries of fund management companies which are established by securities investment fund management companies and qualified for specific client asset management business may conduct the asset-backed securities business.

***Securities Investment Consulting***

According to the Provisional Measures on Administration of Investment Consultations on Securities and Futures (證券、期貨投資諮詢管理暫行辦法), a firm engaging in the securities investment consulting business shall have the necessary qualifications and obtain a business license from the CSRC. Practitioners of securities investment consulting must obtain the securities investment consulting qualifications and join a qualified securities investment consulting institution before providing securities investment consulting services. An institution applying for securities or futures investment consulting business qualifications shall satisfy the following conditions:

- It shall have 5 or more professionals who are holders of securities or futures investment consulting business qualifications; an institution which conducts securities and futures investment consulting businesses at the same time should have 10 or more professionals with the relevant qualifications; at least one of its senior management members has obtained the relevant qualifications;

- It shall have registered capital of RMB1 million or above;

- It shall have fixed business premises and related communication and other information transmission facilities;

- It shall have articles of association;

- It shall have a comprehensive internal management system; and

- It shall satisfy with other conditions required by the CSRC.

According to the Provisional Regulations on the Securities Investment Advisory Business (證券投資顧問業務暫行規定), securities investment advisory business is a basic form of securities investment consulting business. A securities company and its staff shall provide securities investment advisory services in good faith and shall not jeopardize the interests of clients by acting in favor of the company and its related parties, jeopardize the interest of clients by acting in favor of investment advisors and their stakeholders, or jeopardize the interests of other clients by acting in favor of specific clients.

According to the Provisional Regulations on the Publication of Securities Research Reports (發佈證券研究報告暫行規定), in issuing securities research reports, 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 its published items in a fair manner. They shall be prohibited from disseminating false, untrue and misleading information, and from engaging in or participating in insider trading or securities market manipulation.

***Financial Advisory Business in the M&A and Reorganization of Listed Companies***

According to the Administrative Measures for Financial Advisory Business in the M&A and Reorganization of Listed Companies (上市公司併購重組財務顧問業務管理辦法), securities companies approved by the CSRC to qualify for the financial advisory business in the M&A and reorganization of listed companies may engage in financial advisory business in the M&A and reorganization of listed companies according to the relevant requirements. The CSRC reviews and decides on the application by financial advisor applicants for the qualification of the financial advisory business in the M&A and reorganization of listed companies. Securities companies which are engaged to act as independent financial advisors of listed companies shall maintain their independence and shall not have any interest in the listed companies.

***Agency Sale of Securities Investment Fund***

According to the Administrative Measures on Securities Investment Fund Sales (證券投資基金銷售管理辦法), subject to satisfaction of the relevant requirements, securities companies and other institutions may apply for qualification for the fund distribution business from the CSRC's local branches. Staff participating in the fund distribution business, such as promoters of funds and system maintenance technicians of fund sales information management platforms, shall obtain qualification for the fund distribution business. Fund distribution entities shall set up a comprehensive management system of fund holder accounts and capital accounts, a system of fund depository and withdrawal procedures and authorization for fund holders and a suitability management system for fund distribution. Fund sales agencies shall, in the process of selling funds and the relevant products, abide by the principle of giving priority to investors' interests, and sell products of different risk degrees according to the risk tolerance of investors so as to sell appropriate products to appropriate fund investors.

***Agency Sale of Financial Product***

According to the Administrative Provisions on the Agency Sale of Financial Products by Securities Companies (證券公司代銷金融產品管理規定), a securities company shall be qualified for the agency sale of financial products and obtain an approval from the branch office of the CSRC where the company is located in order to carry out the agency sale of financial products. Prior to the acceptance of entrustment for agency sale of financial products, a securities company shall examine the qualifications of the entrusted party. A securities company that recommends and introduces financial products to clients shall obtain such basic information as the clients' identity, property, income, financial knowledge and investment experience, and investment objectives, risk appetite and appraise their suitability for the purchase of financial products. A securities company shall adopt appropriate methods to provide clients with financial product information that is comprehensive, fair and accurate, and provide adequate explanation of the key risk characteristics of the financial product. Employees of securities companies who engage in agency sale of financial products shall obtain the securities business qualifications.

***Margin Financing and Securities Lending***

Pursuant to the Administrative Measures on Margin Financing and Securities Lending of the Securities Companies (證券公司融資融券業務管理辦法), a securities company which intends to engage in margin financing and securities lending business must meet the relevant conditions and obtain the qualification of margin financing and securities lending business with approval from the CSRC. Securities companies engaging in margin financing and securities lending business shall open accounts in their own name at securities registrars, such as 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 the 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.

The Implementation Rules of Shanghai Stock Exchange on Margin Financing and Securities Lending (上海證券交易所融資融券交易實施細則) (amended in 2015) and the Implementation Rules of the Shenzhen Stock Exchange on Margin Financing and Securities Lending (深圳證券交易所融資融券交易實施細則) (amended in 2015) specify detailed requirements for the procedures regarding the launch by securities companies of margin financing and securities lending businesses at the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as well as the underlying securities and other aspects of margin financing and securities lending.

Pursuant to the Provisional Measures on the Supervision and Administration of the Refinancing Business (轉融通業務監督管理試行辦法), refinancing business refers to the operating activities whereby a securities finance company lends the funds or securities which are owned or lawfully raised by it to securities companies for their securities margin financing and securities lending business. These measures regulate the refinancing business in various aspects, including securities finance companies, rules on the refinancing business, sources of capital and securities, disposal of interests and supervision and management.

***Stock-based lending and stock repurchases***

Pursuant to the Business Risk Management Guidelines for Stock-based Lending Transactions of Securities Companies (Trial) (證券公司股票質押式回購交易業務風險管理指引(試行)) issued by the SAC, securities companies shall establish a comprehensive internal control system and risk management system for the stock-based lending transaction business, and clarify the highest decision-making authority for the business, specific duties of various tiers and levels, procedures and balancing mechanism, performance appraisal and accountability mechanisms linked to the risk management effects. Securities companies shall establish an underlying securities management system to clarify the screening standards and admission criteria for underlying securities, upper limit of pledge ratio, the pledge ratio determination mechanism for underlying securities of specific projects, concentration management mechanism of underlying securities, etc., and clarify the adjustment mechanism to evaluate or update its applicability on regular or non-regular basis. Securities companies shall establish a business on-going management system for conducting tracking management on pending repurchase transactions. Securities companies shall establish a comprehensive default handling management system, designated persons who will be responsible for handling default matters, and shall enter into an agreement with the borrower on default events and disposal methods, etc. Moreover, CSDCC, Shanghai Stock Exchange and Shenzhen Stock Exchange have also issued guidelines and notices for the relevant businesses, and have made specific provisions for stock-based lending business and registration and settlement business processes of securities companies.

The Registration and Settlement Business Guidelines for Securities Transactions under Stock Repurchase Agreements (約定購回式證券交易登記結算業務指南) issued by CSDCC have provided requirements for the opening and clearing of securities accounts designated for securities transactions under stock repurchase agreements, appropriation of securities and payment of funds, handling of interest in underlying securities and termination of repurchase. Moreover, China Securities Depositary and Clearing Corporation Limited (中國證券登記結算有限責任公司), Shanghai Stock Exchange and Shenzhen Stock Exchange have also issued the relevant notices to make specific provisions for securities transactions under stock repurchase agreements and for the registration and settlement business processes.

***Provision of Intermediary Business to Futures Companies by Securities Companies (Futures Introducing Brokerage Business)***

According to the Provisional 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), securities companies providing futures introducing brokerage business to futures companies shall operate in a due and cautious manner through standardized departmental management of their futures intermediary business. Securities companies shall only accept the entrustment of their wholly owned or controlling futures companies, or futures companies with which they are under common control by the same entity to provide introducing business. The securities companies shall not accept the entrustment of other futures companies to carry out introducing business. Securities companies and futures companies shall be independent from each other and have separate accounts, staff and places of business. Securities companies shall not carry out futures trading, clearing, settlement or delivery for their clients, and they shall not receive or pay futures deposits for futures companies or clients, or deposit, withdraw or transfer futures deposits for clients with the securities capital accounts. Securities companies shall not, directly or indirectly, raise funds or provide guarantees for futures trading clients.

***Futures Brokerage, Futures Trading, Futures Investment Consulting and Asset Management***

The Regulations of Futures Trading (期貨交易管理條例) and the Measures for Administration of Futures Companies (期貨公司監督管理辦法) 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. Futures companies engaging in asset management business shall register according to law. Apart from domestic futures brokerage business, futures companies may also apply for the qualification to conduct overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC. Futures trading shall strictly comply with the deposits system. A futures company trades futures for clients in its own name and clients shall be solely liable to the transaction results. Futures companies shall not engage, directly or indirectly, in principal investment of futures. Eligible overseas institutions may trade in specific categories of futures in futures trading exchanges, specific measures shall be formulated by the futures supervision and management authorities of the State Council.

According to the Provisional Measures on the Administration of Foreign Traders and Overseas Brokers Engaging in Specific Categories of Futures Trading in the PRC (境外交易者和境外經紀機構從事境內特定品種期貨交易管理暫行辦法), eligible foreign traders and overseas brokers may engage in specific categories of futures trading in the PRC through a variety of models. The Measures also stipulate on the main business areas involved in specific categories of futures trading in the PRC, investigations and punishment of behaviors in violation of laws and regulations by foreign traders and overseas brokers engaging in specific categories of futures trading in the PRC and involved in related business activities, as well as cross-border law enforcement and other regulatory functions.

***Direct Investment***

Pursuant to the Rules for Direct Investment Business of Securities Companies (證券公司直接投資業務規範), a direct investment subsidiary and its affiliates shall establish a sound investment management system which specifies its investment scope, investment strategy, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategy, etc. A direct investment subsidiary and its affiliates may set up and manage direct investment funds including equity investment funds, debt investment funds, venture capital investment funds, buyout funds, mezzanine funds, as well as direct investment funds mainly investing in the aforesaid funds. A direct investment subsidiary may commence the following businesses:

- Use proprietary funds or establish direct investment funds for investing in equities or bonds of enterprises, or for investing in other investment funds relating to equity investment or credit investment;

- Provide clients with financial advisory services relating to equity investment funds or debt investment funds; and

- Other businesses approved by the CSRC.

***Stock Index Futures and Treasury Bond Futures***

According to the Guidelines on Securities Companies Participating in Stock Index Futures and Treasury Bond Futures Trading (證券公司參與股指期貨、國債期貨交易指引), securities companies that participate in the trading of stock index futures or treasury bond futures using their own funds or entrusted funds managed by them shall formulate the relevant trading system, including investment decision-making procedures, investment objectives, scale of investment and risk control, etc. Securities companies without the proprietary securities business license may trade in treasury bond futures with their own funds for hedging purposes only.

Pursuant to the Guidelines on Securities Investment Funds Participating in Stock Index Futures Trading (證券投資基金參與股指期貨交易指引), equity funds, hybrid funds and capital preservation funds may participate in trading of stock index futures in accordance with these guidelines, while bond funds and money market funds are not allowed to participate in the trading of stock index futures. Except for the special funds otherwise stipulated or approved by the CSRC, securities investment funds shall comply with the specific procedures and investment proportion limits when participating in stock index futures trading.

The Guidelines on Qualified Foreign Institutional Investors Participating in Transaction of Stock Index Futures (合格境外機構投資者參與股指期貨交易指引) provides that qualified investors participating in the trading of stock index futures shall only engage in hedging transactions. Qualified investors participating in the trading of stock index futures shall open accounts, apply for hedging quota and handle other matters according to the relevant requirements of the China Financial Futures Exchange. Qualified investors, custodians and futures companies shall, in accordance with the relevant requirements of the China Financial Futures Exchange, determine the trading and clearing modes of stock index futures trading participated in by qualified investors, specify rights and obligations in each section of the transaction, and set up a fund safety protection mechanism.

According to the Measures on the Administration of Risk Control of China Financial Futures Exchange (中國金融期貨交易所風險控制管理辦法) amended in 2015, for the purpose of risk management, China Financial Futures Exchange adopts a margin system, a price limit system, a position limit system, a large position reporting system, a mandatory liquidation system, a forced position reduction system, a settlement guarantee fund system and a risk warning system. In addition, China Financial Futures Exchange may in its discretion adopt one or more of the following risk control measures depending on market conditions: raising trading margin level, restricting the opening of new positions, restricting the withdrawal of funds, ordering a close-out of positions within a specified time limit, forcing liquidation, suspending trading, adjusting the daily price up/down limits, forcing reduction of positions, or other risk control measures.

**Cross-border Business**

***RMB Qualified Foreign Institutional Investor (RQFII) Business***

Pursuant to the Pilot Measures on Domestic Securities Investments by RMB Qualified Foreign Institutional Investors (人民幣合格境外機構投資者境內證券投資試點辦法), a RQFII means a foreign legal person which has been approved by the CSRC and granted with investment quota by the SAFE to carry out domestic securities investments with RMB funds sourced from overseas. A RQFII engaging in domestic securities investments business shall entrust a commercial bank in China qualified to act as a custodian for RQFIIs to take charge of assets custodian business, and entrust a domestic securities company to act as its securities trading agent. A RQFII may entrust a domestic asset management organization to manage its domestic securities investments.

Pursuant to the Detailed Implementation Rules of the Shanghai Stock Exchange for the Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (上海證券交易所合格境外機構投資者和人民幣合格境外機構投資者證券交易實施細則) and the Detailed Implementation Rules of the Shenzhen Stock Exchange for the Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (深圳證券交易所合格境外機構投資者和人民幣合格境外機構投資者證券交易實施細則), a RQFII may, within the approved investment quota, invest in shares (including ordinary shares, preference shares and other shares authorized by the Shanghai Stock Exchange or Shenzhen Stock Exchange), bonds (including treasury bonds, pre-issuance of treasury bonds, local government bonds, corporate bonds, enterprise bonds, convertible corporate bonds, split trading of convertible corporate bonds, convertible corporate bonds, private placement of bonds by SMEs, policy financial bonds, subordinate bonds, and other types of bonds authorized by the Shanghai Stock Exchange and Shenzhen Stock Exchange), funds (including various types of tradable open index funds (ETF), closed-end funds, open-end funds, monetary market funds and other types of funds authorized by the Shanghai Stock Exchange and Shenzhen Stock Exchange), warrants, asset-backed securities and other types of securities permitted by the CSRC, quoted or transferred on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. A RQFII may participate in the application for subscription of new share issuance, bond issuance, additional issue and placement of shares.

Rules relating to the Implementation of the Pilot Measures on Domestic Securities Investments by RMB Qualified Foreign Institutional Investors (關於實施<人民幣合格境外機構投資者境內證券投資試點辦法>的規定) further provides that applicants of RMB Qualified Foreign Institutional Investor must be Hong Kong subsidiaries of domestic fund management companies, securities companies, commercial banks, insurance companies, or financial institutions incorporated or with principal place of business in Hong Kong, which have obtained asset management business qualification from the securities regulatory authority of Hong Kong and have commenced asset management business. Investments in domestic securities by foreign investors shall comply with the shareholding ratio restrictions imposed by the CSRC.

***Shanghai-Hong Kong Stock Connect***

Pursuant to the Announcement on Launching the Pilot Shanghai-Hong Kong Stock Connect (關於開展滬港股票市場交易互聯互通機制試點的公告) jointly issued by the CSRC and the SFC on April 10, 2014, as well as the Memorandum of Understanding between the CSRC and the SFC on Strengthening Regulatory and Enforcement Cooperation under the Shanghai-Hong Kong Stock Connect (滬港通項目下中國證監會與香港證監會加強監管執法合作備忘錄) signed on November 10, 2014, Several Provisions on the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (滬港股票市場交易互聯互通機制試點若干規定), the Measures of the Shanghai Stock Exchange on the Pilot Shanghai-Hong Kong Stock Connect (上海證券交易所滬港通試點辦法) and others, the Shanghai Stock Exchange and the Hong Kong Stock Exchange enable investors of the two sides to trade shares within specified scope listed on the other's stock exchange through local securities companies (or brokers), the investment scope may be adjusted by both parties based on the status of the pilot programme. The Shanghai-Hong Kong Stock Connect is comprised of the northbound trading and the southbound trading. Trading under the Shanghai-Hong Kong Stock Connect will initially be subject to a maximum RMB cross-boundary investment quota, together with a daily quota that will be monitored on a real time basis. Quotas may be adjusted by both sides based on the status of the pilot programme. Initially, domestic investors participating in the southbound trading shall meet the required qualifications.

***Shenzhen — Hong Kong Stock Connect***

Pursuant to the "Joint Announcement of the China Securities Regulatory Commission and the Securities and Futures Commission" (中國證券監督管理委員會、香港證券及期貨事務監察委員會聯合公告) jointly published by the CSRC and the SFC on August 16, 2016, both the CSRC and the SFC have, in principle, approved the establishment of the Shenzhen-Hong Kong Stock Connect. The principal system and arrangements of Shenzhen-Hong Kong Stock Connect have made reference to the Shanghai-Hong Kong Stock Connect and are in compliance with the trading settlement laws and regulations and mode of operation prevailing in both markets. Shenzhen-Hong Kong Stock Connect will not set any aggregate quota, the daily quota will be consistent with the current standard under Shanghai-Hong Kong Stock Connect, both sides may adjust the investment quota according to the actual operation performance, and the aggregate quota for Shanghai-Hong Kong Stock Connect was abolished with immediate effect on the date of this circular. The CSRC and the SFC have agreed in principle to jointly study and introduce other financial products, and have reached consensus on the inclusion of exchange-traded funds (ETFs) in the eligible interconnection investment items which will be duly launched when the relevant conditions are fulfilled. For other relevant issues not described in the joint announcement, Shenzhen-Hong Kong Stock Connect will refer to the relevant provisions stipulated in the joint announcement of Shanghai-Hong Kong Stock Connect. After completion of the preparation of relevant trading and settlement rules and systems, all approvals from the relevant regulatory authorities have been obtained, sufficient adjustments have been made to the business and technical systems by market participants, all necessary cross-border regulatory and enforcement cooperative arrangements and investor education have been in place, then the Shenzhen-Hong Kong Stock Connect will commence officially.

**Corporate Governance and Risk Control**

***Corporate Governance and Risk Control of Securities Companies***

(1) *Corporate Governance*

The corporate governance of securities companies is regulated by the Company Law, the Securities Law, the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例), the Rules for Governance of Securities Companies (證券公司治理準則), the Guidance for the Internal Control of Securities Companies (證券公司內部控制指引), and other PRC laws, regulations and regulatory documents.

Securities companies shall establish a sound corporate governance structure. The governance structure of a securities company shall include a scientific decision-making process and rules of procedures, an efficient and strict business operation system, a sound and effective internal control and feedback system, and an effective incentive and binding mechanism. The board of directors and independent directors of a securities company shall fully exercise their supervision responsibilities and prevent the risk of manipulation by substantial shareholders and control by insiders. The establishment of departments and post establishment of a securities company shall have clear delineation of powers and duties with checks balance, and appropriate segregation between frontline business operations and back office management support is required. A sound Chinese wall system shall be established among major business departments of a securities company to ensure the relative independence of the brokerage, principal investment, entrusted investment management, investment banking, research and consultancy businesses.

Securities companies engaging in more than two businesses in securities brokerage, asset management, margin financing and securities lending and securities underwriting and sponsoring, a remuneration and nomination committee, an audit committee and a risk control committee shall be established by the board of directors, and the persons in charge of the remuneration and nomination committee and the audit committee shall be served by independent directors. If a securities company sets up a body to exercise the operation and management power, the name, composition, duties and responsibilities, and rules of decision-making of such body shall be defined in the articles of association of the securities company, and the members of the body shall be the senior management of the securities companies.

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) further specifies the regulations on the qualifications of directors, supervisors and senior management members. Directors, supervisors and senior management members of securities companies shall obtain the appointment qualifications approved by the CSRC's local branches before taking office.

(2) *Risk Control*

The Securities Law stipulates the requirements for the risk control system of securities companies, which mainly include: making provisions for trading risk from the annual profits (after tax) to cover the loss of securities trading, establishing and enhancing its internal control systems and adopting effective, segregation measures to prevent conflicts of interest between the company and its clients and among different clients.

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), (amended on June 16, 2016 and effective from October 1, 2016), a securities company shall calculate the various risk control indicators such as net capital, risk coverage ratio, capital leverage ratio, liquidity coverage ratio, net steady fund rate, and prepare the calculation form for net capitals, calculation form for risk capital reserves, calculation form for total of on- and off-balance-sheet, calculation form for liquidity coverage ratio, calculation form for net steady fund rate and calculation form for risk control indicators, according to the relevant requirements of CSRC and under the principles of prudence as well as substance over form. For new products and new business without prescribed requirements for risk control indicator standards and calculation requirements, before a securities company invests in such a product or commences such a business, it shall report to or seek prior approval from the CSRC and the local office of the CSRC at the place where the company was registered. The CSRC will, base on the characteristics and risks level of the new product and new business of the securities company, fix the corresponding risk control indicator standard and calculation requirements according to the consultation of opinions from the industry.

Pursuant to the Norms for the Comprehensive Risk Management of Securities Companies (證券公司全面風險管理規範), securities companies shall implement all-rounded risk management to avoid risks of business operation, such as liquidity risks, market risks, credit risk and operating risks, and shall establish and improve a well-rounded risk management system that is in line with their respective development strategies, including workable management rules, a sound organizational framework, a reliable information technology system, a quantitative risk indication system, a team of professionals, an effective risk response mechanism and an advanced risk management culture.

Pursuant to the Guidelines for the Liquidity Risk Management of Securities Companies (證券公司流動性風險管理指引), 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, to ensure its liquidity demand could be satisfied timely at reasonable costs.

(3) *Classified Regulation*

Pursuant to the Regulations on Classification and Supervision of Securities Companies (證券公司分類監管規定), the CSRC classifies the securities companies into five types and eleven categories such as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk control capability, competitiveness and ongoing compliance of securities companies. According to the market development conditions and the principles of prudent regulation, and based on the opinions sought from industry participants, the CSRC has formulated and timely adjusted the appraisal benchmarks and standards for securities companies. The classification of securities companies is implemented by the CSRC and its delegated local branches, appraisals are conducted on an annual basis and the appraisal period starts on 1 May of the previous year and ends on 30 April of the current year. According to the principle of classified regulation, the CSRC sets up different standards on risk indicators, calculates proportions of risk capital reserve for different types of securities companies, and treats such companies differently in terms of regulation resource allocation and the frequency of on-site and off-site inspections.

***Corporate Governance and Risk Control of Direct Investment Company***

(1) *Corporate Governance*

Pursuant to the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》), a practitioner in a securities company shall not serve concurrently as the senior management or direct investment practitioner in its direct investment subsidiary and its affiliates or its direct investment funds, or unlawfully engage in direct investment business in other manners. A practitioner who has a conflict of interest with securities companies shall not serve as a director, supervisor or member of investment decision-making committee of the above institutions; for other practitioners who hold the above positions, securities companies shall establish strict and effective internal control systems to prevent a potential conflict of interest and moral hazard. Effective information segregation mechanisms shall be established between a securities company and its direct investment companies affiliates and direct investment funds to enhance the segregation, supervision and management of sensitive information so as to prevent inappropriate flow and usage of sensitive information between the securities business and direct investment business, as well as prevent the risk of inside trading and tunneling.

(2) *Risk Control*

Pursuant to the Rules for Direct Investment Business of Securities Companies (證券公司直接投資業務規範), a direct investment subsidiary and its affiliates shall establish a sound investment management system which specifies the investment scope, investment strategy, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategy, etc. A direct investment subsidiary and its affiliates shall establish a specific investment decision-making committee to set up investment decision-making procedures and risk tracking, analysis mechanisms to effectively prevent investment risks. A direct investment subsidiary and its affiliates shall enhance the management of the invested enterprises and keep track of, analyze, evaluate the operation condition of the invested enterprises, and deal with any potential investment risk in a timely manner. A direct investment subsidiary and its affiliates shall not provide guarantee to entities or individuals other than the direct investment subsidiary and its affiliates and direct investment funds, and shall not become capital contributors who bear joint and several liability for the debts of the enterprises they have invested in.

***Corporate Governance and Risk Control of Futures Companies***

(1) *Corporate Governance*

The Supervisory and Administrative Measures for Futures Companies (期貨公司監督管理辦法) provides that the CSRC shall implement the management qualification system for directors, supervisors, senior management and other futures practitioners. The business, personnel, assets, finance and place of business of a futures company shall be strictly separated from those of its controlling shareholders, and shall be independently operated and audited.

The Administrative Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (期貨公司董事、監事和高級管理人員任職資格管理辦法) regulates the management qualification system with regard to the directors, supervisors and senior management of futures companies. The measures specify the qualifications for the above positions, application procedure, approval of qualification, code of conduct, supervision and administration and other aspects. The State Council's Decision on the Cancellation and Adjustment of a Series of Items Requiring Administrative Approval (國務院關於取消和調整一批行政審批項目等事項的決定) (Guo Fa [2015] No. 11) has cancelled the approval requirement for appointment qualification of directors, supervisors and senior management officers of futures companies, and the CSRC Announcement [2015] No. 11 has already changed such administrative permission to post-event reporting management.

(2) *Risk Control*

According to the requirements of the Supervisory and Administrative Measures for Futures Companies (期貨公司監督管理辦法), the Administrative Regulations on Futures Trading (期貨交易管理條例) and the Administrative Measures on Risk Supervision Standards of Futures Companies (期貨公司風險監管指標管理辦法), a futures company engaging in futures brokerage business and other futures business at the same time shall strictly implement systems for separation of business and capital, and shall be prohibited from mixed operations. The CSRC formulates regulations on the risk regulatory indicators such as the proportion of net capital to net assets, the proportion of net capital to the business scale of domestic futures brokerage and overseas futures brokerage, and the ratio of current assets to current liabilities of futures companies. The CSRC also sets out requirements on the operating conditions, risk management, internal controls, margin deposits and related party transactions of futures companies and their branches. Futures companies shall establish and strictly implement their business management rules and risk management systems and comply with the information disclosure system to ensure the safe deposit of clients' margins.

(3) *Classified Regulation*

Pursuant to the Regulations on Classification and Supervision of Futures Companies (期貨公司分類監管規定), the CSRC classifies the futures companies into five types and eleven categories, such as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on prudent supervision requirements, and the risk control capability, competitiveness and ongoing compliance of the futures companies. According to the principle of classified regulation, the CSRC sets up different calculating ratios for contribution to the Futures Investors Protection Fund by different types of futures companies, and treats them differently in terms of regulation resource allocation and the frequency of on-site and off-site inspections.

**Other Regulations**

***Information Disclosure***

The Notice on the Relevant Issues Regarding the Information Disclosure of Securities Companies promulgated by CSRC (中國證券監督管理委員會關於證券公司信息公示有關事項的通知) requires a securities company to disclose information such as basic situation, operating branches, business license type, products and senior management through the websites of the SAC and the securities company, etc.

The Rules on the Content and Format of Annual Reports of Securities Companies (證券公司年度報告內容與格式準則) requires a securities company to prepare its annual report as required in these rules and submit the annual report to the CSRC within 4 months after the end of each financial year. Other than this requirement, a securities company that has publicly issued its securities shall also prepare and disclose its annual reports in accordance with the relevant information disclosure provisions for publicly listed companies. A securities company that has not publicly issued securities shall prepare and publicly disclose the information as required by these rules as well as the body of its audit report and its audited financial statements (excluding the notes).

***Anti-money Laundering***

Securities companies shall comply with the requirements related to anti-money laundering stipulated in the Anti-money Laundering Law of the People's Republic of China (中華人民共和國反洗錢法), the Provisions on Anti-money Laundering of Financial Institutions (金融機構反洗錢規定), the Administrative Measures on Reporting of Large Amount Transactions and Suspicious Transactions of Financial Institutions (金融機構大額交易和可疑交易報告管理辦法), the Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) and the Guidelines for Risk Assessment of Money Laundering and Financing of Terrorism and for Client Classification Management in Financial Institutions (金融機構洗錢和恐怖融資風險評估及客戶分類管理指引).

The Measures on the Anti-money Laundering by Securities and Futures Industry (證券期貨業反洗錢工作實施辦法) further stipulates the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities shall also establish and enhance internal control systems for anti-money laundering. In addition, securities companies shall comply with the requirements of the Anti-Money Laundering Guidelines for Securities Companies (證券公司反洗錢工作指引) and implement anti-money laundering measures with due consideration given to respective business features and practical conditions.

The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body established in 1989 with the objective to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF monitors the progress of its members in implementing necessary measures, reviewing money laundering and terrorist financing techniques and counter-measures, and promoting the adoption and implementation of appropriate measures globally. The PRC became a member of the FATF in 2007 and adopted the first mutual evaluation reports in June 2007 with a follow-up report published in March 2012.

***Anti-terrorism***

Pursuant to the Administrative Measures on Freezing of Assets Involving Terrorist Attacks (涉及恐怖活動資產凍結管理辦法), financial institutions and special non-financial institutions established in the PRC shall freeze the related assets in strict accordance with the list of terrorist organizations and personnel list as well as the decisions on freeze assets issued by the Ministry of Public Security.

The International Convention for the Suppression of the Financing of Terrorism (制止向恐怖主義提供資助的國際公約) appeals for enhancement of international cooperation between countries to formulate and adopt effective measures to prevent financing the terrorism as well as suppressing terrorism through prosecuting and punishing terrorist acts. PRC Government ratified this convention in 2006 with reservations.

***Anti-corruption***

The Anti-Unfair Competition Law (反不正當競爭法) requires that business dealers be prohibited from using properties or other means for bribing in order to sell or purchase commodities. Serious offenders shall be subject to criminal liabilities under the law. The Interim Provisions on the Prohibition of Commercial Bribery Behaviour (關於禁止商業賄賂行為的暫行規定) has further stipulated the constitution and legal liabilities of commercial bribery.

The United Nations Convention against Corruption (聯合國反腐敗公約) aims to promote and enhance various measures for preventing and combating corruption in a more effective and powerful way, and to promote, facilitate and support international cooperation and technical assistance in preventing and combating corruption, including asset recovery, encouraging integrity, accountability and proper management of public affairs and properties. PRC Government ratified this convention in 2005 with reservations.

**Regulatory Reforms and Innovations**

In recent years, the PRC Government has deepened reforms, further simplified and deregulated administrative measures, and the State Council and the CSRC have promulgated a number of regulations to promote the reforms and innovations of the securities industry.

Pursuant to the Opinions of the State Council on Further Promoting the Healthy Development of Capital Market (國務院關於進一步促進資本市場健康發展的若干意見) (Guofa [2014] No. 17), a multi-tier stock market shall be developed by actively and steadily promoting the reform of share offer system into a registration system, speeding up the establishment of a multi-tier equity market and encouraging market-driven M&As and restructurings; a private equity market shall be cultivated by establishing a sound private equity offering system and developing private equity investment funds; and the capital market shall be further opened up by facilitating cross-border investment and financing of domestic and foreign entities, gradually improving the level of opening-up in the securities and futures industry and enhancing the cooperation in cross-border regulation.

The CSRC promulgated the Opinions on Further Promoting the Innovative Development of Securities Operation Institutions (關於進一步推進證券經營機構創新發展的意見) (Zhengjianfa [2014] No. 37) in May 2014 which provides that modern investment banks shall be constructed by such as improving integrated financial servicing capacities, perfecting basic functions, broadening financing channels, developing cross-border business and enhancing compliance and risk control level; business and product innovation shall be supported by, such as promoting the development of asset management business, supporting the launch of fixed-income, foreign currencies and commodities business, supporting financing business innovation, properly conducting derivatives business, developing OTC services, supporting self-development of private products; and regulatory transition shall be promoted by, such as changing regulatory mode, deepening examination and approval reforms, relaxing industry access and implementing business license administration.

In recent years, the State Council has promulgated a series of regulations on cancelling and adjusting the administrative reviews and approvals for, among others, the securities industry, including but not limited to the cancellation of the approval requirement for appointment qualification of persons in charge of domestic branches of securities companies, the cancellation of review and approval requirements for borrowing or issuance, repayment or clearance of subordinated debts by securities institutions and cancellation of the review and approval requirements for new trading items listed on a stock exchange etc.

In addition, the Draft Amendment to the Securities Law (證券法修訂草案), which was submitted to the 14th meeting of the Standing Committee of the Twelfth Session of the National People's Congress for consideration in April 2015, substantially amends the securities issuance and trading system. As of the Latest Practicable Date, the Draft Amendment to the Securities Law is subject to further review by the Standing Committee of the National People's Congress.

With the deepening of regulatory reforms and innovations in the securities industry, the regulatory authorities in the PRC adopted the philosophy of relaxing prior approval while enhancing in-process supervision and enforcement. They continue to improve the way that they regulate the securities markets in China. The regulatory reform leads to a surge of innovative products and services and brings with it increased market risk and volatility. As a result, the regulatory authorities have been requesting the securities firms to strengthen their overall risk management and have been promulgating new regulations and rules from time to time to maintain and stabilize market order.

## 6. BUSINESS

### BUSINESS OVERVIEW

CISC is a fully-licensed securities firm in the PRC with an extensive and well-established branch network, a large customer base and an integrated business platform. CISC was formed out of the securities-related assets from China Southern Securities Co., Ltd., one of the first PRC securities service providers. Leveraging its proven track record and full securities business licences, CISC provides a comprehensive range of securities products and services to serve various needs of corporate, individual, institutional and government clients.

The table below sets forth the structure of CISC's five business lines:

| Brokerage | Investment Banking | Asset Management | Proprietary Trading | Others |
|---|---|---|---|---|
| • Securities brokerage services | • Equity financing | • Collective asset management schemes | • Fixed-income investment | • Institutional sales and trading |
| • Capital-based intermediary services | • Debt financing | • Targeted asset management schemes | • Equity trading | • OTC business |
| • Futures brokerage | • Financial advisory services | • Specialized asset management schemes | | • Private equity |
| | • NEEQ services | | | • Alternative investment |
| | | | | • Hong Kong business |

### STRENGTHS AND HIGHLIGHTS OF CISC

**Extensive branch network and strategically located regional operations**

As of June 30, 2016, CISC had 192 securities branches across 28 provinces in the PRC, enabling it to serve diverse needs of its customers across the PRC. To align its services and operations with the development of the PRC securities market, CISC has strategically located service and operating capabilities in economically developed regions, such as the Pearl River Delta, the Yangtze River Delta and the Bohai Economic Rim, and in select regions with market growth potentials. As of June 30, 2016, over two-thirds of the securities branches of CISC were located in the top ten provinces in terms of trading volume of stocks and funds. Those top ten provinces accounted for approximately 80% of the aggregate trading volume of stocks and funds in the PRC securities market in 2015 according to

Wind Info. In 2015, 63 securities branches of CISC ranked among the top one-third brokerage branches in their respective local markets in terms of either trading volume of stocks and funds or total revenue. Please refer to "— The Business of CISC — Brokerage — Distribution Network" for the geographic branch coverage of CISC.

CISC's branch network and strategic coverage is an important competitive advantage, which allows it to provide locally accessible securities brokerage services, develop and enlarge customer base and increase cross-selling opportunities across business lines. The large scale of branch network also allows CISC to gain greater customer awareness, achieve stable performance and maintain an advantageous position in the highly competitive securities brokerage market in the PRC.

**Large, loyal and high-quality client base, which is pivotal to developing wealth management business**

CISC has a large, loyal and high-quality client base. As of June 30, 2016, CISC had 2.4 million individual brokerage customers, of which approximately 67.6% held accounts with CISC for over three years and approximately 18.5% held accounts with it for over 10 years. Such high proportion of long-standing customers of CISC evokes its client loyalty and stability. Among 2.4 million individual customers, 21,051 are high-net-worth customers (with account balance of more than RMB2 million) with an average securities account balance of RMB7.0 million per customer, and 82,710 are affluent customers (with account balance between RMB500,000 and RMB2 million) with an average securities account balance of RMB922,193.5 per customer. In recent years, wealth of PRC residents has accumulated fast and the awareness of wealth management has increased quickly. With a large number of high-net-worth and affluent customers, CISC is well positioned to strengthen cross-selling among business lines and seize the opportunities in the wealth management market in China.

**Highly-experienced sales and customer service team committed to providing comprehensive financial services**

The sales and customer service team in each securities branch of CISC is led by the branch head and comprises primarily account managers, investment advisors and other supporting personnel. As of June 30, 2016, heads of the securities branches of CISC had an average industry experience of 17 years, and in particular, heads of the top 60 securities branches (in terms of contribution to the brokerage segment revenue and other income) had an average industry experience of 21 years. As of June 30, 2016, CISC had 861 account managers, 352 investment advisors and 1,337 supporting personnel. The average length of service of the account managers and the investment advisors with CISC exceeds six years. Key employees in the sales and customer service team have strong capabilities and play a significant role in maintaining quality customer services at the branch level. In addition to the above-mentioned core sales and customer service staff employed by CISC, as of June 30, 2016, CISC had 1,273 securities brokers acting as third party contractors. Leveraging extensive industry experiences of the sales and customer service team, CISC is committed to creating value for its clients through providing diverse securities products and services. CISC was awarded "Best Investment Advisory Brand in China (中國最佳投資顧問品牌)" and "Warmest Investment Advisory Team in China (中國最暖投顧團隊)" by Securities Times in 2016 and 2015, respectively.

**Well-developed online securities brokerage business and proactive approach to the further development of online financial service business**

In response to the growing demand for online financial and securities services, CISC established the Online Financial Service Division in 2015 to develop its online service platforms with a focus on online securities trading and wealth management services. CISC has launched a series of mobile service apps, including "Zhang Zhong Tou" (掌中投), "Niu Ren Hui" (牛人匯), "Easy Account Opening" (易開戶) and "Easy Online Hall" (易網廳), which are capable of offering a variety of services and functions, including account opening, transaction execution, securities trading, sales of financial products, account management, market information and interactive online community. Such online services have received positive market feedbacks, which lead to 460,615 new accounts opened via online platforms in 2015. For the six months ended 30 June 2016, 75,222 new accounts were opened via the online platforms of CISC, accounting for approximately 90% of its all newly-opened accounts. On March 24, 2016, CISC entered into a strategic partnership agreement with Shenzhen Tencent Computer Systems Company Limited ("**Tencent**") to explore development opportunities from the use of the Internet in the securities markets by utilizing their respective competitive edges. According to the strategic partnership agreement, CISC and Tencent seek to collaborate in various aspects, including securities online wealth management services, the online platform for investment advisory services, financial products, content services and brand development and use of the WeChat platform, which will lay a solid foundation for the further development of online securities business and other comprehensive financial services. Recent joint campaign "The Gathering of Bull Elites" attracted more than 600 funds to participate.

**Sound and effective risk management system and strict and prudent internal control**

CISC maintains a sound and effective risk management system to formulate and implement comprehensive internal rules and guidelines and to ensure the effectiveness of internal communications involving risk control matters. CISC has established a three-level risk management structure to conduct strict risk management and control over its businesses, consisting of: (i) the board of directors and the risk management committee; (ii) senior management, including the executive committee and risk control committee; and (iii) departments in charge of risk management (including risk management department, legal and compliance department and audit department) as well as risk management functions in business departments and branches. With respect to the risk management of the securities brokerage business, local branches are mainly subject to the centralized management by the headquarter office, which achieves a high degree of systematization. With high risk awareness, securities branches attach great importance to communications with the headquarter office and are responsive to risk management and internal control matters. Since its inception, CISC has emphasized the effectiveness of the internal control system by developing the preventive and impetus functions of the system. Supported by the effective and strict risk management and internal control, CISC has maintained a sound financial position, particularly in its capital-based intermediary services and proprietary trading activities. CISC has received a regulatory rating of "Class A Grade A" or above from the CSRC for ten consecutive years since 2007 when the CSRC adopted the rating framework.

**Synergistic operations and cross-selling across business lines by leveraging the well-developed brokerage business and network advantage**

CISC has a collaborative sales mechanism, a team dedicated in cross-business coordination and incentive policies to support and encourage synergistic operations and overall operating efficiency. Leveraging its well-developed brokerage business and network advantage, CISC has achieved synergies in its operations by sharing its client resources, channels and business opportunities and promoting cross-selling across business lines. The sales and customer service teams under the local brokerage branches play an important role in establishing and maintaining relationships with local corporate clients. With the in-depth knowledge of local markets and access to the first-hand information of local corporate clients, they can quickly identify their needs for investment and financing and capture cross-selling opportunities for investment banking business. In 2015, nearly half of the total NEEQ listing projects completed by CISC's investment banking division were introduced and recommended by its local branches.

Supported by the channel advantage of CISC's brokerage business, its asset management business has achieved a fast development. In 2015, the collective asset management schemes gained 1.2 billion new units, 80% of which were sold through the sales force of local branches, and revenue from the collective asset management business of CISC reached a total of RMB186.6 million, representing a CAGR of 57.6% from 2013.

In 2015, the brokerage business line and the institutional sales and trading business line of CISC jointly established a hedge fund client service system, which is designed for branches to explore business needs and develop hedge fund clients.

## AWARDS

CISC has earned significant acclaim for its high quality services and various contributions to the PRC securities industry. The table below sets forth recent major awards and recognition conferred on CISC:

| Year | Awards | Organizers/Media |
|---|---|---|
| 2016 | Best Securities Broker in China (中國最佳證券經紀商) | Securities Times (證券時報) |
| | Best Investment Advisory Brand in China (中國最佳投資顧問品牌) | Securities Times (證券時報) |
| | Most Pioneering Investment Bank (Securities Business) in the PRC (中國區最具突破性證券投行) | Securities Times (證券時報) |
| | Best Investment Bank (Re-financing Business) in the PRC (中國區最佳再融資投行) | Securities Times (證券時報) |
| | Outstanding Securities Firm By Investor Survey (投資者調查優秀證券公司) | China Securities Investor Protection Fund Corporation (投資者保護基金) |

| Year | Awards | Organizers/Media |
|---|---|---|
| 2015 | Best Securities Broker in China (中國最佳證券經紀商) | Securities Times (證券時報) |
| | Best Investment Advisory Brand Name in China (中國最佳投資顧問品牌) | Securities Times (證券時報) |
| | Warmest Investment Advisory Team in China (中國最暖投顧團隊) | Securities Times (證券時報) |
| | Best Overseas Market Research Institution (最佳海外市場研究機構) | China Business Network (第一財經) |
| | Outstanding Securities Firm By Investor Survey (投資者調查優秀證券公司) | China Securities Investor Protection Fund Corporation (投資者保護基金) |
| | Excellent Member for Investor Education (投資者教育優秀會員) | Shanghai Stock Exchange and Shenzhen Stock Exchange |
| 2014 | Best Bond Financing Project Award in the PRC (中國區最佳債券融資項目獎) | Securities Times (證券時報) |
| | Shenzhen Financial Innovation Award - Award of Excellence (Workflow Settlement and Management System) (深圳市金融創新獎優秀獎(流程結算管理模式)) | The Development of the Shenzhen Municipal Government Financial Services Office (深圳市金融辦) |
| | Science and Technology Award of the Securities and Futures Industry — Award of Excellence (Business Workflow Integration cum Consolidated Platform Project) (證券期貨業科學技術獎優秀獎(業務流一體化協同平台項目)) | Securities Association of China (中國證券業協會), China Futures Association (中國期貨業協會), Asset Management Association of China (中國證券投資基金業協會) |
| 2013 | Outstanding Securities Company for Investor Education and Services (證券公司投資者教育與服務優秀單位) | Securities Association of China (中國證券業協會) |
| | Golden Bull Securities Firm — Collective Asset Manager (金牛券商集合資產管理人) | China Securities Journal (中國證券報), jlnc. com (金牛理財網) |
| | Golden Bull Securities Firm — Annual Collective Asset Management Scheme (金牛年度券商集合資產管理計劃) | China Securities Journal (中國證券報), jlnc. com (金牛理財網) |

## THE BUSINESS OF CISC

The table below sets forth a breakdown of its revenue and other income by business segment for the periods indicated:

| | Year Ended December 31, | | | | | | Six Months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | Revenue | Percentage | Revenue | Percentage | Revenue | Percentage | Revenue | Percentage | Revenue | Percentage |
| | (In millions of RMB, except percentages) | | | | | | | | | |
| | | | | | | | (Unaudited) | | | |
| **Brokerage** | **3,026.3** | **82.6%** | **4,375.4** | **85.0%** | **10,627.9** | **85.1%** | **6,029.0** | **84.5%** | **2,610.2** | **75.1%** |
| Securities brokerage | 2,397.1 | 65.4% | 3,236.8 | 62.9% | 7,922.0 | 63.5% | 4,528.8 | 63.5% | 1,727.2 | 49.7% |
| Capital-based intermediary Services | 457.1 | 12.5% | 987.3 | 19.2% | 2,548.0 | 20.4% | 1,407.9 | 19.7% | 816.7 | 23.5% |
| Futures brokerage | 172.1 | 4.7% | 151.3 | 2.9% | 157.9 | 1.3% | 92.3 | 1.3% | 66.2 | 1.9% |
| **Investment banking[(1)]** | **141.1** | **3.9%** | **173.0** | **3.4%** | **583.1** | **4.7%** | **393.5** | **5.5%** | **359.6** | **10.3%** |
| **Asset management[(2)]** | **107.5** | **2.9%** | **158.7** | **3.1%** | **257.5** | **2.1%** | **162.9** | **2.3%** | **141.0** | **4.1%** |
| **Proprietary trading [(3)]** | **112.1** | **3.1%** | **84.0** | **1.6%** | **252.4** | **2.0%** | **102.8** | **1.4%** | **53.8** | **1.5%** |
| **Others[(4)]** | **276.2** | **7.5%** | **358.2** | **7.0%** | **760.9** | **6.1%** | **443.4** | **6.2%** | **310.3** | **8.9%** |
| **Total** | **3,663.3** | **100.0%** | **5,149.5** | **100.0%** | **12,481.9** | **100.0%** | **7,131.6** | **100.0%** | **3,474.9** | **100.0%** |

*Notes:*

(1) CISC's investment banking segment includes equity financing, debt financing, financial advisory services and NEEQ services.

(2) CISC's asset management segment includes collective asset management schemes, targeted asset management schemes and specialized asset management schemes.

(3) CISC's proprietary trading segment includes equity trading and fixed income investment.

(4) CISC's other business segment includes institutional sales and trading, OTC business, private equity, alternative investment and Hong Kong business.

### Brokerage

*Overview*

The brokerage business of CISC primarily comprises the following:

- Securities brokerage services: CISC executes trades on behalf of its clients in stocks, funds and bonds;

- Capital-based intermediary services: CISC provides its brokerage clients with a number of capital-based intermediary services including margin financing services and securities lending services and securities-backed lending and stock repurchase services; and

- Futures brokerage: CISC provides futures brokerage services and products in the PRC.

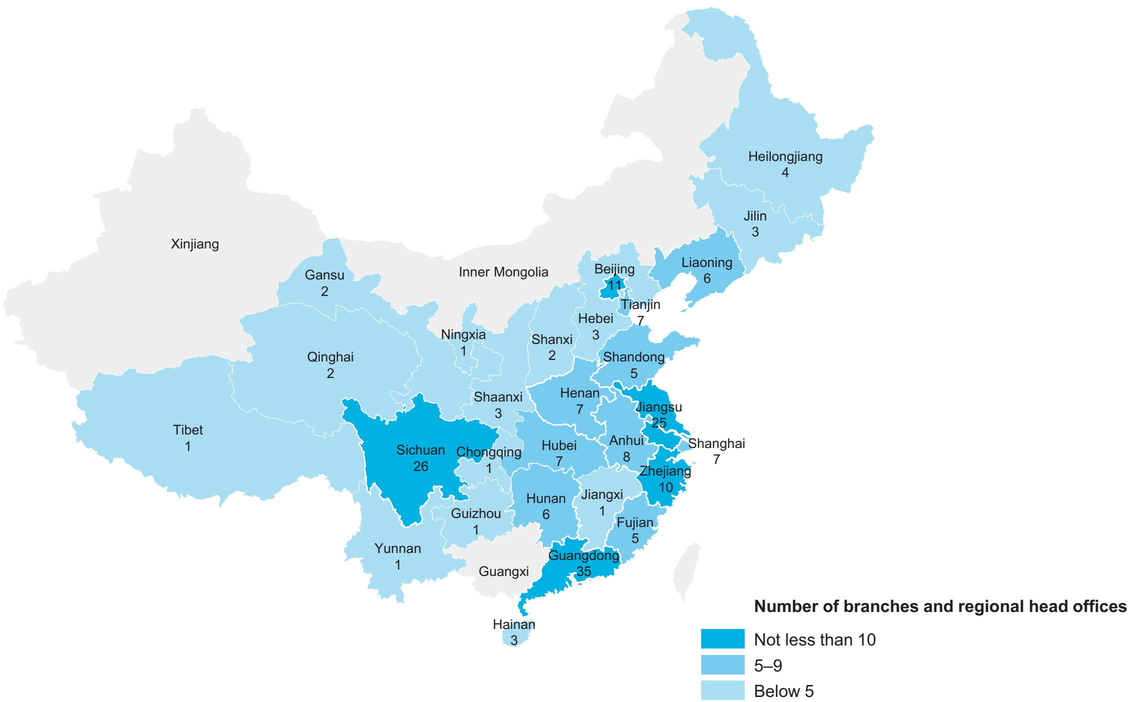
The brokerage business of CISC accounted for the largest portion of its total revenue and other income during the Track Record Period. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its brokerage business amounted to RMB3,026.3 million, RMB4,375.4 million, RMB10,627.9 million and RMB2,610.2 million, respectively, representing 82.6%, 85.0%, 85.1% and 75.1% of its total revenue and other income, respectively.

***Distribution Network***

*Branch Network*

CISC has one of the largest securities branch networks among PRC securities firms, spanning over 28 provinces in the PRC. As of June 30, 2016, CISC had 192 securities branches and nine future branches. Its branches are mainly located in the economically well-developed regions with high concentrations of high-net-worth and affluent individuals and SME clients. As of June 30, 2016, the number of its securities branches located in the Yangtze River Delta, the Pearl River Delta and the Bohai Economic Rim constituted approximately 57% of the total number of its securities branches.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, CISC had 110, 140, 160 and 192 securities brokerage branches, respectively. The map below illustrates the distribution of its securities brokerage branch network as of June 30, 2016:




For the year ended December 31, 2015, 63 securities branches of CISC ranked among the top one-third brokerage branches in their respective local markets in terms of either trading volume of stocks and funds or total revenue, among which, five securities brokerage branches ranked No. 1 in their local markets.

*Online Platform*

CISC has a well-established online platform through mobile applications, computer programs as well as websites. Its online platform encompasses a variety of services and functions, such as account opening, transaction execution, portfolio overview, sales of financial products, account management and product and market information.

Being proactive to the client needs and taking advantage of the fast development of mobile net, CISC was one of the first securities firms that utilized mobile applications as part of its online services. CISC first launched its mobile service applications in May 2014.

Featuring faster processing and increased productivity at low costs, the online platform has become an important channel of account opening and transaction execution for the brokerage business of CISC. As of June 30, 2016, the accumulated number of downloads of its mobile apps was over 563,194. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the volume of stocks and funds brokerage trading executed over the online platform of CISC represented 83.2%, 86.2%, 92.1% and 88.5% of its total stocks and funds brokerage trading volume, respectively, and the number of clients who have traded on its mobile terminal accounted for 12.2%, 19.3%, 44.4% and 44.7% of the total number of the brokerage clients of CISC who traded stocks and funds, respectively.

***Customers***

The brokerage clients of CISC can be classified into individual customers and institutional customers. Among the individual customers, clients can be further classified into three categories by account balance:

- High-net-worth customers: customers with an account balance of RMB2 million or more;
- Affluent customers: customers with an account balance of at least RMB500,000, but less than RMB2 million; and
- Retail customers: customers with an account balance of less than RMB500,000.

As of June 30, 2016, CISC had 4,362 institutional customers and 2,441,636 individual customers. Among the individual customers, CISC had 21,051 high net-worth customers, 82,710 affluent customers and 2,337,875 retail customers in its brokerage business. Approximately 1.7 million individual customers had accounts with CISC for over three years, approximately 0.5 million had accounts with CISC for over 10 years.

As of the same date, the average AUM of CISC's brokerage customers amounted to RMB510,327.2, where the average AUM for individual customers amounted to RMB127,919.3 while the average AUM for institutional customers amounted to RMB214.6 million.

The table below sets forth the number of CISC's brokerage clients by customer type as of the dates indicated:

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Institutional customers | 3,452 | 3,660 | 4,167 | 4,362 |
| Individual customers | 1,679,041 | 1,837,017 | 2,356,779 | 2,441,636 |
| **Total** | 1,682,493 | 1,840,677 | 2,360,946 | 2,445,998 |

***Securities Brokerage Services***

CISC engages in the trading of various securities products on behalf of its clients, including:

- Stocks: stocks of listed companies on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange (through the Shanghai-Hong Kong Stock Connect);

- Funds: listed funds, including open-ended funds, close-ended funds and ETFs; and

- Bonds: bonds that are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, including treasury bonds, corporate bonds and convertible bonds.

The table below sets forth the trading volume and market share by product type for CISC's brokerage services for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | Trading volume | Market share | Trading volume | Market share | Trading volume | Market share | Trading volume | Market share | Trading volume | Market share |
| | (In billions of RMB, except percentages) | | | | | | | | | |
| Stocks and funds | | | | | | | | | | |
| Stocks | 2,252.5 | 2.42% | 3,382.0 | 2.29% | 10,797.5 | 2.12% | 5,863.0 | 2.11% | 2,619.8 | 2.05% |
| Funds | 33.9 | 1.18% | 207.4 | 2.22% | 375.1 | 1.23% | 242.8 | 1.55% | 116.3 | 1.12% |
| **Subtotal** | **2,286.4** | **2.39%** | **3,589.4** | **2.28%** | **11,172.6** | **2.07%** | **6,105.8** | **2.08%** | **2,736.1** | **1.98%** |
| Bonds | 1,355.1 | 1.09% | 1,817.4 | 1.05% | 1,949.1 | 0.77% | 860.7 | 0.78% | 1,460.3 | 0.74% |
| **Total** | **3,641.5** | **1.66%** | **5,406.8** | **1.64%** | **13,121.7** | **1.65%** | **6,966.5** | **1.72%** | **4,196.4** | **1.25%** |

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from its securities brokerage services amounted to RMB2,397.1 million, RMB3,236.8 million, RMB7,922.0 million and RMB1,727.2 million, respectively, representing 79.2%, 74.0%, 74.5% and 66.2% of its segment revenue and other income from its brokerage business during those periods, respectively.

***Capital-based Intermediary Services***

The capital-based intermediary services of CISC include margin financing and securities lending services, securities-backed lending and stock repurchase services. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from its capital-based intermediary services amounted to RMB457.1 million, RMB987.3 million, RMB2,548.0 million and RMB816.7 million, respectively.

*Margin Financing and Securities Lending*

CISC obtained qualification from the CSRC in November 2010 for the margin financing and securities lending service, and commenced such service in December 2010. It offers margin financing service to brokerage clients who wish to leverage their investments. It lends securities to its brokerage clients, enabling them to capture potential short-selling opportunities. Revenue from its margin financing and securities lending services consists primarily of interest income from margin financing and securities lending. As of June 30, 2016, the standard annualized interest rates CISC charged its clients for its margin financing services and for securities lending services were 8.35% and 10.35%, respectively, which varied within certain range in some transactions.

The table below sets forth a summary of the key operating information of the margin financing and securities lending services of CISC for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (In millions of RMB, except percentages) | | | |
| Market share[1] | 2.09% | 2.16% | 2.10% | 2.03% |
| Balance of margin financing and securities lending | 7,253.5 | 22,123.8 | 24,708.3 | 17,289.9 |
| Margin loan balance | 7,231.8 | 22,003.6 | 24,705.7 | 17,288.4 |
| Market value of securities lent | 21.7 | 120.2 | 2.7 | 1.5 |
| Interest of margin financing and securities lending[2] | 427.8 | 927.1 | 2,444.0 | 781.9 |

*Notes:*

(1) Based on Wind Info.

(2) Includes interest from the margin financing and securities lending services of CISC's Hong Kong business.

*Securities-backed Lending and Stock Repurchase Services*

The securities-backed lending and stock repurchase services of CISC offer additional financing choices for its clients.

In the securities-backed lending services of CISC, eligible clients pledge their securities to CISC and CISC provides financing to, and charges interests from, its clients. Benefiting from its strong client base of sophisticated investors, CISC has large and steady demands for its securities-backed lending service. As of December 31, 2013, 2014, 2015 and June 30, 2016, the total balance of its securities-backed lending transactions with its clients amounted to RMB251.1 million, RMB705.5 million, RMB3,411.4 million and RMB10,667.5 million, respectively.

For the stock repurchase services of CISC, CISC purchases securities from a client pursuant to a repurchase agreement under which the client should buy back the securities at predetermined prices with a specified period of time. CISC retains ownership of the securities purchased before the client's repurchase occurs. As of December 31, 2013, 2014, 2015 and June 30, 2016, the total balance of its stock repurchases transactions with its clients amounted to RMB213.5 million, RMB160.9 million, RMB40.1 million and RMB107.6 million, respectively.

CISC's securities-backed lending and stock repurchase services help its clients obtain liquidity and also offer opportunities to mobilize their idle assets. The interest rates CISC charges for these services are generally subject to market conditions.

*Sources of Funds and Securities*

The sources of funds and securities for CISC's capital-based intermediary businesses historically consisted of the following:

- Its operating cash and equity securities held for investment and trading business. See "Risk Factors — Risks Relating to the Financial Conditions of CISC — A significant decrease in the liquidity of CISC could materially affect its business and may reduce customer confidence in it" for more details;

- Proceeds from the issuance of corporate bonds, subordinated bonds, short-term corporate bonds, short-term commercial papers and beneficiary certificates. See "Financial Information — Indebtedness";

- Margin loans receivable-backed financing: CISC contracts to sell its margin loans receivable to a counterparty for a short-term financing and agrees to repurchase such assets at a later date; and

- Margin and securities refinancing: CISC acquired the qualification for the pilot margin refinancing and securities refinancing businesses in November 2012 and September 2013, respectively. It is able to borrow funds or securities from China Securities Finance and then lend to its margin financing and securities lending customers.

***Futures Brokerage***

CISC provides futures brokerage services through its subsidiary, Tianqi Futures, which is a member of the Shanghai Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange and the China Financial Futures Exchange. As of June 30, 2016, the futures products of CISC included commodity futures and financial futures.

The table below sets forth the trading volume of the futures brokerage service of CISC by product type for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | (RMB in billions) | | | | |
| Commodity futures | 1,195.1 | 1,399.9 | 1,059.4 | 545.6 | 680.7 |
| Financial futures | 4,339.8 | 4,307.1 | 6,376.9 | 4,496.8 | 90.7 |
| **Total** | 5,534.9 | 5,707.0 | 7,436.2 | 5,042.4 | 771.4 |

As of June 30, 2016, CISC had nine futures branches across seven provinces in the PRC. In addition, 96 of its securities branches and one regional head offices have been licensed to conduct futures introducing brokerage service, which allow these branches and head offices to introduce potential clients to Tianqi Futures.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the average futures brokerage commission rate of CISC was 0.17bps, 0.12bps, 0.11bps and 0.27bps, respectively. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from the futures brokerage service amounted to RMB172.1 million, RMB151.3 million, RMB157.9 million and RMB66.2 million, respectively, representing 5.7%, 3.5%, 1.5% and 2.5% of the segment revenue and other income from its brokerage business during those periods, respectively.

**Investment Banking**

***Overview***

The investment banking businesses of CISC cover the following activities:

- Equity financing: CISC provides equity underwriting services, including IPOs, follow-on offerings (such as private placement and rights issues) and convertible bond offerings for PRC corporate clients;

- Debt financing: CISC provides its clients with debt underwriting services which include enterprise bonds, corporate bonds, debt financing instruments of non-financial institutions, financial bonds and ABS;

- Financial advisory services: CISC advises M&As and restructuring for PRC corporate clients; and

- NEEQ services: CISC provides recommendation services to help non-listed public companies to enter into the NEEQ for share quotation and transfer.

CISC has won a number of awards in recognition of its investment banking business, including the following:

| Year | Awards | Organizers/Media |
|---|---|---|
| 2016 | Most Pioneering Investment Bank (Securities Business) in the PRC (中國區最具突破性證券投行) | Securities Times (證券時報) |
| | Best Investment Bank (Re-financing Business) in the PRC (中國區最佳再融資投行) | Securities Times (證券時報) |
| 2014 | Best Debt Financing Project of the Year in China (中國區最佳債券融資項目獎) | Securities Times (證券時報) |
| 2011 | Outstanding Sponsor Award (傑出保薦人獎) | 2010 Securities Intermediaries Ranking Campaign by the Zhejiang Provisional Government (浙江省政府於2010年度證券中介機構評價) |
| | Best Value Discovery Team Award of 2010 (2010年最具價值發現團隊獎) | Shanghai Stock News (上海證券報) and www.cnstock.com (中國證券網) |
| | Investment Bank with the Highest Growth Potential (最具成長性投行) | Securities Times (證券時報) |
| | Best IPO Project (最佳IPO項目) | Securities Times (證券時報) |
| | Best Sponsor Project with the Highest Investment Value (最具投資價值保薦項目) | Securities Times (證券時報) |
| | Best Sponsor Representative for IPO Projects (最佳IPO項目保薦代表人) | Securities Times (證券時報) |
| | 2010 Excellent Sponsor of the Year (2010年度優秀保薦機構) | Shenzhen Stock Exchange |
| 2010 | 2009 Excellent Sponsor for Small- to Medium-sized Listed Companies (2009年度中小板上市公司優秀保薦機構) | Shenzhen Stock Exchange |

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its investment banking business amounted to RMB141.1 million, RMB173.0 million, RMB583.1 million and RMB359.6 million, respectively, representing 3.9%, 3.4%, 4.7% and 10.3% of its total revenue and other income, respectively.

*Equity Financing*

CISC provides equity underwriting services, including IPOs, follow-on offerings (such as private placement and rights issues) as well as convertible bond offerings, for its PRC corporate clients. CISC has maintained long-term relationships with its clients. It served primarily SMEs in their equity underwriting business, including well-known privately-owned enterprises. As of June 30, 2016, CISC had 47 PRC sponsor representatives. During the Track Record Period, CISC acted as a lead underwriter for 21 equity underwriting transactions in the PRC, underwriting an aggregate of RMB21,528.6 million. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from its equity underwriting service was RMB21.8 million, RMB14.7 million, RMB323.2 million and RMB89.6 million, respectively.

The table below sets forth a breakdown of equity financing transactions by product type in which CISC acted as a lead underwriter[(1)]:

| | | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|---|
| | | **2013** | **2014** | **2015** | **2016** |
| **As a lead underwriter** | | | | | |
| IPOs ............................ | Number of issues[(2)] | — | — | 5 | 1 |
| | Amount lead-underwritten *(In millions of RMB)* | — | — | 2,447.5 | 277.8 |
| | Underwriting and sponsor fees *(In millions of RMB)* | — | — | 178.3 | 30.0 |
| | Average commission rate | — | — | 7.3% | 10.8% |
| Follow on offerings[(3)] .... | Number of issues | 1 | 1 | 6 | 6 |
| | Amount lead-underwritten *(In millions of RMB)* | 165.6 | 800.0 | 13,414.2 | 3,923.6 |
| | Underwriting and sponsor fees *(In millions of RMB)* | 7.5 | 12.0 | 143.9 | 59.3 |
| | Average commission rate | 4.5% | 1.5% | 1.1% | 1.5% |

*Notes:*

(1) Based on the operating records of CISC.

(2) During the Track Record Period, CISC acted as both a sponsor and a lead underwriter for all the IPOs underwritten by it.

(3) Includes convertible bonds.

The total amount of equity securities underwritten by CISC for the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 was RMB165.6 million, RMB800.0 million, RMB15,861.7 million and RMB4,201.3 million, respectively.

***Debt Financing***

CISC provides its clients with debt underwriting services which include enterprise bonds, corporate bonds, debt financing instruments of non-financial institutions, financial bonds and ABS. It charges underwriting commission and fees on debt financing transactions based on comparable market fee rates, the size of financing and market conditions.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, CISC acted as a lead manager for 41 debt offerings, underwriting an aggregate of RMB42,968.0 million. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from its debt financing service was RMB102.9 million, RMB110.5 million, RMB88.5 million and RMB198.2 million, respectively.

The table below sets forth the breakdown of debt offerings in which CISC acted as a lead manager for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| **As a lead manager** | | | | |
| Number of transactions | 10 | 10 | 8 | 13 |
| Amount underwritten (*In millions of RMB*) | 12,299.0 | 12,530.0 | 7,599.1 | 10,540.0 |
| Revenue and income[(1)] (*In millions of RMB*) | 73.8 | 91.1 | 74.6 | 139.0 |

*Note:*

(1) Includes income from financial advisory services.

***Financial Advisory Services***

CISC provides financial advisory services on various types of transactions for its clients in the PRC, including but not limited to M&A, strategic and corporate restructuring and joint stock reform and pre-listing tutoring. It charges advisory fees based on the type, size and specific terms of the transactions. During the Track Record Period, CISC provided financial advisory services for 16 listed companies and 261 unlisted companies. It assisted clients in achieving strategic expansion in industry consolidation through M&A transactions.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from financial advisory services of CISC amounted to RMB15.4 million, RMB37.3 million, RMB132.4 million and RMB53.8 million, respectively.

***NEEQ Services***

In March 2013, CISC obtained approval to conduct NEEQ listing recommendation service and began to recommend qualified companies to be listed on the NEEQ for share quotation and transfer.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the number of companies recommended by CISC for share quotation and transfer on the NEEQ were nil, 13, 28 and 15, respectively.

In addition, CISC actively provides follow-up financing services for companies listed on the NEEQ. During the Track Record Period, CISC has completed 22 and 13 private placements on the NEEQ, for the year ended December 31, 2015 and the six months ended June 30, 2016, respectively.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, income from NEEQ services of CISC amounted to RMB1.1 million, RMB10.5 million, RMB39.0 million and RMB18.0 million, respectively.

**Asset Management**

***Overview***

The asset management services of CISC primarily include:

- Collective asset management schemes: CISC manages assets for a group of clients through designated accounts pursuant to applicable laws and in accordance with the collective asset management contracts;

- Targeted asset management schemes: CISC manages assets for a single client pursuant to the specific terms of the bilateral contracts between the client and it through a designated account; and

- Specialized asset management schemes: CISC manages client's certain assets for a specific purpose.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its asset management business amounted to RMB107.5 million, RMB158.7 million, RMB257.5 million and RMB141.0 million, respectively, representing 2.9%, 3.1%, 2.1% and 4.1% of its total revenue and other income, respectively.

The table below sets forth a breakdown by product type of the AUM and revenue of the different asset management schemes of CISC for the periods indicated:

| | As of or for the year ended December 31, | | | | | | As of or for the six months ended June 30, | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | AUM | Revenue | AUM | Revenue | AUM | Revenue | AUM | Revenue |
| | (In millions of RMB) | | | | | | | |
| Collective asset management schemes... | 2,186.2 | 75.1 | 3,831.3 | 114.7 | 8,573.4 | 186.6 | 11,291.7 | 110.0 |
| Targeted asset management schemes... | 30,431.3 | 21.7 | 24,547.0 | 27.7 | 11,349.5 | 26.5 | 16,052.6 | 6.0 |
| Specialized asset management schemes... | 8.0 | — | 982.9 | 10.0 | 2,987.0 | 20.8 | 4,810.0 | 13.9 |
| Others.............................. | — | 10.7 | — | 6.3 | — | 23.7 | — | 11.1 |
| **Total** .............................. | **32,625.6** | **107.5** | **29,361.2** | **158.7** | **22,910.0** | **257.5** | **32,154.3** | **141.0** |

*Collective asset management schemes*

As of June 30, 2016, CISC had 22 outstanding collective asset management schemes, covering equity market, bond market, money market and hybrid funds, with a total AUM of RMB11,291.7 million. For collective asset management schemes, it generally charges annual management fees as a percentage of the amount of AUM, generally between 0.8% and 2.5% and it also charges performance fees simultaneously on certain schemes. Given the substantial increase in demand for collective asset management schemes, the AUM of CISC's collective asset management schemes increased significantly from RMB2,186.2 million as of December 31, 2013 to RMB11,291.7 million as of June 30, 2016.

CISC also invests in its certain collective asset management schemes using its own capital to attract clients. As of June 30, 2016, the fair value of its capital contribution in these collective asset management schemes totalled RMB544.4 million, of which approximately RMB387.6 million was invested in the subordinated tranche of these schemes. As both the asset manager and the holder of the subordinated tranche, CISC agreed with its clients that if the investment return on the senior tranche of these schemes falls below certain anticipated yield, it is required to compensate its clients for the shortfall up to the amount of its expected contribution to the subordinated tranche of such scheme. See "Risk Factors — Risks Relating to the Business and Industry of CISC — Risks relating to the business of CISC — A significant decline in the size of the AUM of CISC, or unsatisfying investment performance, may materially and adversely affect its asset management business."

*Targeted asset management schemes*

CISC enters into a targeted asset management contract with a single client, pursuant to which CISC provides asset management services, such as trading in a portfolio of equity securities, trust products and bank deposits, on behalf of such client through the specialized securities accounts under the client's name. In general, its targeted asset management schemes have a minimum subscription amount of RMB1.0 million. For targeted asset management schemes, CISC receives management fees as a certain percentage of the amount of AUM, generally between 0.02% and 1%. During the Track Record Period, the commission rate for channel-based schemes decreased due to increased market competition. Accordingly, CISC set up target asset management schemes on a selective basis and the AUM of its targeted asset management schemes decreased from RMB30.4 billion as of December 31, 2013 to RMB16.1 billion as of June 30, 2016. As of June 30, 2016, CISC had been involved in 94 targeted asset management schemes.

*Specialized Asset Management*

The specialized asset management schemes of CISC primarily focus on ABS products in relation to public utilities, properties and margin financing credit. As of June 30, 2016, CISC had launched a total of four ABS specialized asset management schemes with a total AUM of RMB4.8 billion.

In response to the issue of the Administrative Measures on the Asset Securitization Business of Subsidiaries of Securities Companies and 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) by the CSRC in 2014, CISC launched its first ABS specialized asset management scheme on the Shenzhen Stock Exchange, which further promotes and supports the development of the asset securitization business. Being responsive and proactive, CISC will continue to seek innovation in the specialized asset management products and further accelerate the growth of its business.

**Proprietary Trading**

***Overview***

The proprietary trading business of CISC covers the following activities:

- Fixed-income investment: CISC engages in the trading of various types of fixed-income securities for its own account on the PRC interbank bond market and stock exchanges; and

- Equity trading: CISC engages in the trading of stocks, ETFs and derivatives for its own account.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its proprietary trading business amounted to RMB112.1 million, RMB84.0 million, RMB252.4 million and RMB53.8 million, respectively, representing 3.1%, 1.6%, 2.0% and 1.5% of its total revenue and other income, respectively.

***Fixed-income Investment***

CISC engages in the trading of various types of fixed-income securities for its own account on the PRC interbank bond market and stock exchanges, principally including treasury bonds, financial bonds, medium-term notes, short-term commercial papers, corporate bonds and enterprise bonds. As of June 30, 2016, the balance of CISC's fixed-income investment was RMB6.2 billion.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from fixed-income investment of CISC amounted to RMB16.7 million, RMB125.8 million, RMB156.0 million and RMB54.3 million, respectively.

***Equity Trading***

In its equity trading business, CISC engages in the trading of stocks, ETFs and derivatives for its own account. CISC emphasizes value investing to capture investment opportunities in quality stocks and selected sectors. CISC selects equity securities based on macro-economic research, market cycles analysis and study of the target securities' industry, business models, financial condition and management team. In addition, CISC constantly adjusts its trading strategies based on market trends and conditions. As of June 30, 2016, the balance of CISC's equity trading was RMB182.3 million, comprising RMB181.5 million in stocks and ETFs, and RMB0.8 million in available-for-sales financial assets.

For the years ended December 31, 2013 and 2015, revenue and other income from equity trading of CISC amounted to RMB95.4 million and RMB96.5 million, respectively. For the year ended December 31, 2014 and the six months ended June 30, 2016, CISC recorded loss of RMB41.7 million and RMB0.5 million, respectively, primarily due to investment loss.

**Other Businesses**

***Overview***

The businesses of CISC also cover the following activities:

- Institutional sales and trading: CISC leases its participant business units to its institutional clients for securities trading on stock exchanges and earn trading commissions, and provides research services to facilitate their investment decisions;

- OTC business: the OTC business of CISC primarily involves market-making services for NEEQ companies and provision of beneficiary certificate products and other trading services in the OTC market;

- Private equity: the private equity business of CISC involves private equity investment and management of private equity funds;

- Alternative investment: the alternative investment activities of CISC primarily involve investments in share equity, properties and financial products related to share equity and properties, through establishment of investment funds or equity investments using funds from its clients; and

- Hong Kong business: CISC conducts its oversea business mainly through CIS HK.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, segment revenue and other income from its other businesses amounted to RMB276.2 million, RMB358.2 million, RMB760.9 million and RMB310.3 million, respectively, representing 7.5%, 7.0%, 6.1% and 8.9% of its total revenue and other income, respectively.

***Institutional Sales and Trading***

CISC leases its participant business units to its institutional clients for securities trading on stock exchanges and earns trading commissions, and provides research services to facilitate their investment decisions. Its institutional clients are mainly mutual funds management companies, NSSF, insurance asset management companies, private funds management companies, securities companies, QFII and RQFII. CISC charges its institutional clients with different commission rates based on the product type. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, commission income from such institutional investors amounted to approximately RMB134.8 million, RMB153.1 million, RMB282.1 million and RMB92.0 million, respectively.

As of June 30, 2016, the research team of CISC has 53 members. All team members have obtained the securities practice qualification certificates issued by the SAC and 94% held master's degrees or above. CISC provides, and encourages its research staff to attend, trainings in different business areas, including compliance, analyst positioning and professional development, valuation methodologies and securities investment theories to enhance their professional expertise.

Its research team provides regular research reports and corporate updates to its institutional clients to help them identify and evaluate investment opportunities. Its broad scope of research covers macro-economic analysis and policy studies, fixed income products, investment strategies, industry and company research. CISC's equity expertise covers a broad range of sectors such as the fixed-income products, construction, pharmaceutical and social services.

In light of its outstanding achievement in research business, CISC has received various awards and accolades:

- In 2013, CISC was awarded the "Most Influential Research Institution (No.3)" (最具影響力研究機構第三名) by JRJ.com (金融界);

- In 2013, CISC was awarded the "Golden Research Institution" by 21st Century Business Herald (21世紀網)

- In 2014, the strategy team of CISC was awarded the "Best Analyst of the Year — Strategy" (年度最佳策略分析師) by Investor Today (今日投資);

- In 2014, CISC was awarded the "Best Stock Selection in the iron and steel Industry" (鋼鐵行業最佳選股分析師), the "Best Analyst in the food and beverage industry" (食品飲料行業最佳分析師), the "Best Profit Forecast Analyst in the agriculture, forestry, husbandry and fisheries industry" (農林牧漁業最佳盈利預測分析師) and the "Best Profit Forecast Analyst in the leisure services industry" (休閒服務業最佳盈利預測分析師) by Investor Today (今日投資); and

- In 2015, CISC was awarded the "Best Buy Side Analyst — Individual Award (No.4)" (最佳分析師—個人獎項(第四名)) for the building materials industry and the "Best Buy Side Analyst — Individual Award (No.5)" (最佳分析師—個人獎項(第五名)) for the real estate industry.

***OTC Business***

CISC provides OTC financial products and conducts trading activities through the OTC market since 2014, which mainly include:

- *Beneficiary certificates*: a type of marketable debt securities issued by securities firms with the payment of principal and return linked to specific underlying assets. CISC started to provide beneficiary certificate products since December 2014. As of June 30, 2016, CISC has issued 55 beneficiary certificates on the OTC market, with an aggregate amount of RMB6,155.3 million.

- *NEEQ market-making*: in July 2014, CISC became one of the first securities firms qualified to offer market-making services to the shares quoted on the NEEQ, which is intended to provide liquidity to the NEEQ market and incentivize trading on the NEEQ. As of June 30, 2016, it has provided market-making services to 177 companies quoted on the NEEQ.

For the two years ended December 31, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from its OTC business was RMB4.6 million, RMB135.1 million and RMB24.0 million, respectively, primarily from its NEEQ market-marking service.

***Private Equity***

CISC operates its private equity service through its wholly-owned subsidiary, CISC Luckystone. CISC Luckystone engages in direct equity investments, where it utilizes its own corporate funds both at CISC Luckystone and its subsidiaries' levels to directly invest in target companies. CISC Luckystone also engages in financial investments through the funds under the management of its subsidiaries. As of June 30, 2016, CISC Luckystone managed through its subsidiaries, a total of three private equity funds with an aggregate assets under management of approximately RMB6,730.6 million. CISC Luckystone focuses on investing in industries with high growth potential, such as high-end equipment manufacturing, modern agriculture, consumer and new energy. CISC Luckystone generally makes direct equity investments as a financial investor and seeks to exit from its investments and capture capital appreciation through share transfer or IPOs. As of June 30, 2016, CISC Luckystone had equity interested in a total of 18 companies.

For private equity funds management, CISC Luckystone generally charges a management fee as a percentage of the contributed amount, generally between 0.2% and 2.0% per year. It also generates investment income from its private equity business. For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, income from its private equity business was RMB27.1 million, RMB34.9 million, RMB33.0 million and RMB9.4 million, respectively.

***Alternative investment***

CISC engages in alternative investment primarily through its subsidiary, Alternative Investment Company. Alternative Investment Company primarily engages in investments in share equity, properties and financial products related to share equity and properties, through establishment of investment funds or equity investments using funds from its clients. It also provides financial advisory services for its clients in relation to equity investments. As of June 30, 2016, Alternative Investment Company had investments outstanding in a total of four fund management companies with a total initial investment cost of RMB4.5 million.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, income from its alternative investment business was RMB32.8 million, RMB28.8 million, RMB26.8 million and RMB9.5 million, respectively.

***Hong Kong business***

CISC expanded its business to the overseas market in March 2012 through CIS HK, its wholly-owned subsidiary in Hong Kong. As of June 30, 2016, the registered capital of CIS HK was HK$500.0 million. As of June 30 2016, CIS HK had total assets of approximately HK$1,783.2 million.

CIS HK has obtained the requisite licenses to conduct the following businesses:

*Securities brokerage and futures brokerage:* it executes trades on behalf of its clients from both China and Hong Kong in stocks, funds, bonds and futures. Most of its clients are individuals. It hires independent contractors as brokerage agents;

*Investment banking*: it provides investment banking services, namely the sponsorship of IPOs on the Hong Kong Stock Exchange for PRC and foreign companies, equity and debt underwriting, advising on cross-border M&A and providing financing solutions for clients; and

*Asset management*: it provides portfolio and fund management advisory services for its institutional clients, high net-worth and retail customers. It has introduced various RMB specialized asset management accounts by leveraging Hong Kong's position as the leading offshore RMB center. As of June 30, 2016, it managed three management accounts, which included two Renminbi Qualified Foreign Institutional Investor (RQFII) funds and one Capital Investment Entrant Scheme (CIES) fund, with a combined AUM of RMB362.0 million.

For the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, revenue and other income from CISC's Hong Kong business was RMB15.8 million, RMB61.6 million, RMB116.9 million and RMB40.0 million, respectively.

## INFORMATION TECHNOLOGY

The continuous development of technology and the Internet has changed the means that securities and other financial products are traded, distributed and settled and the way that financial service providers serve their customers. The strategy of CISC is to prioritize the development of information technology and emphasize the importance of IT support to business development. CISC has established an information technology committee, which is responsible for reviewing mid- to long-term development plans for its IT system, stipulating IT-related policies to support business development and establishing IT standards. The IT department of CISC is responsible for formulating the strategies for the IT development and the design, construction and daily management of the IT systems.

CISC has the following principal IT systems and platforms for business operations, risk controls and management purposes:

- ***Core business platforms:*** CISC has set up various IT systems for its business operations, including a trading and settlement system, an independent financial system and an office management system. The trading and settlement system supports, among others, account opening, sales and trading, customer sourcing and marketing and customer services for both brokerage and OTC business. The financial system supports the collection and processing of the financial information from different business departments and branches of CISC. The office management system supports the internal management and reporting of CISC.

- ***Data management system:*** through cooperation with a leading international software provider, CISC has established customer management systems for individual customers and institutional customers, respectively. Such systems can record the assets, revenue contribution and other important information of the customers and the responsible managers of each customer, enabling CISC to keep track of customers' needs, offer customized services to clients, conduct targeted marketing, provide standardized products and services based on client groups and effectively manage client credit and risks.

- ***Online account opening system:*** as brokerage clients are allowed to open accounts without being physically present in a securities branch, it is convenient for new clients to open brokerage accounts (excluding margin financing and securities lending accounts) through on-line and mobile apps by following simple instructions for registration and verification procedures. Its ability to offer online account opening has enabled CISC to reach clients beyond the physical boundaries of its branch network.

- ***Mobile apps:*** to meet the rising clients' demand for more convenient trading and wealth management services, CISC launched various mobile service terminals, including "Zhang Zhong Tou" (掌中投), "Niu Ren Hui" (牛人匯), "Easy Account Opening" (易開戶) and "Easy Online Hall" (易網廳) for both Apple iOS and Android systems, featuring account opening, transaction execution, securities trading, sale of financial products, account management, market information and interactive community.

- ***Risk management and compliance and legal systems:*** CISC has dedicated risk management and legal and compliance systems to achieve the centralized management of various business-related risks by the centralized monitoring of key risk control parameters. It has developed a risk reporting system (風險事項報告系統) to alert of potential risks such as the material complaints and litigations arising in the daily operation of the branches and departments. The potential risks, if reported through the risk reporting system, will be submitted to relevant responsible departments for further handling. CISC has also established a monitoring system for the abnormal transactions of the clients in respect of the securities trading, a liquidity management system which can automatically monitor liquidity indicators, a market risk monitoring system for monitoring, analysing and assessing the potential risks in various businesses due to market changes, and an anti-laundering and compliance management system for implementing the anti-laundering requirements and compliance during the course of ordinary business operations.

- ***Information technology infrastructure***: CISC has established two disaster recovery backup systems in Shenzhen and one offer backup system in Shanghai to meet the technology regulatory requirements. In addition, it has set up Internet trading stations in Shenzhen, Shanghai, Beijing and other five cities, which can offer instant exchange quotation services to over 1,000,000 online clients and 500,000 mobile clients simultaneously. The systems and measures of CISC in respect of the system construction, operation and maintenance as well as safety management can guarantee the long-term stable operation of its trading system and effectively manage the trading risks.

## MAJOR CUSTOMERS AND SUPPLIERS

CISC serves individual, institutional and corporate customers across a spectrum of sectors. The customers of CISC are primarily located in China.

In 2013, 2014 and 2015 and the six months ended June 30, 2016, the revenue attributable to the five largest customers of CISC accounted for less than 30% of the total revenue of CISC, respectively. To the knowledge of the directors of CISC, none of CISC's directors, supervisors and their respective associates or any shareholders holding more than 5% of the issued share capital of CISC had any interests in any of the five largest customers of CISC as of the Latest Practicable Date.

CISC has no major suppliers due to the nature of its business.

## MARKET AND COMPETITION

As of December 31, 2015, there were 125 registered PRC securities firms. The PRC securities industry is highly regulated and PRC securities firms are subject to extensive regulatory requirements from various perspectives, including business licenses, scope of products and services, business development and risk control. Competition in the PRC securities industry has been and is likely to remain intense. According to Wind Info, the securities firm with the highest operating revenue amongst all securities firms only accounted for less than 9% of the industry's aggregate operating revenue in 2015. In addition, according to the ranking published by SAC, CISC ranked No. 17 in the securities industry in China in terms of revenue for the year ended December 31, 2015 and No. 25 in terms of net assets as of June 30, 2016.

For the securities brokerage business, CISC competes primarily with other securities firms with a national presence in China in terms of pricing and the range of products and services offered. For investment banking business, CISC competes primarily with domestic and foreign joint venture securities firms as well as other securities institutions in terms of brand recognition, product portfolio, marketing and distribution capability, service quality and pricing. For asset management business, CISC competes primarily with asset management companies (including fund management companies and trust companies), banks, insurance companies and other securities firms in the PRC in terms of the range of products and services offered, pricing and quality of customer service.

Some of the competitors of CISC may enjoy certain competitive advantages, such as greater financial resources, more sophisticated management experience and more advanced information technology systems, wider geographic coverage and the ability to offer more diversified financial products and services. In addition, with the deregulation in the PRC securities industry, more competitors are seeking to enter the market or expand their businesses.

## INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, CISC had eight registered trademarks, one computer software copyright registration and 69 registered domain names in China. The directors of CISC confirm that the aforementioned intellectual property rights are not subject to any ownership dispute, encumbrance or other material limitations.

## INSURANCE

CISC maintains the property all risks insurance and the public liability insurance for its headquarters and branches. Consistent with customary industry practice in the PRC, CISC does not maintain any business interruption insurance.

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

All of the insurance policies of CISC are underwritten with reputable insurance providers and it reviews its insurance policies annually.

## EMPLOYEES

As of June 30, 2016, CISC had a total of 3,586 employees. The table below sets forth a breakdown of the employees by business function as of June 30, 2016:

| | Number of employees | Percentage |
|---|---|---|
| Brokerage Personnel | 2,550 | 71.1% |
| Investment Banking Personnel | 294 | 8.2% |
| Asset Management Personnel | 49 | 1.4% |
| Proprietary Trading Personnel | 9 | 0.3% |
| Other Business Personnel | 52 | 1.5% |
| Researchers | 52 | 1.5% |
| Compliance and Risk Control Personnel | 39 | 1.1% |
| IT Personnel | 188 | 5.2% |
| Financial Personnel | 226 | 6.3% |
| Administration Personnel | 114 | 3.2% |
| Others | 13 | 0.4% |
| **Total** | **3,586** | **100%** |

As of June 30, 2016, 2,849 employees had bachelor's degrees or above, accounting for 79.4% of the total employees of CISC.

CISC has adopted a market-based remunerative structure that links employees' remuneration with their performance. The performance evaluation system of CISC provides the basis for human resource decisions such as remuneration adjustments, career promotion and talent cultivation. In addition, CISC provides its employees with supplementary compensation benefits, such as additional paid annual leave, healthcare subsidies and family care.

In order to improve the professional skills of employees, CISC has established a comprehensive and diverse training system, providing employees with both internal and external training programs. The internal training programs of CISC consist of a combination of on-site, video conference and online training.

During the Track Record Period, CISC did not have any strikes, protests or other material labor conflicts that may materially impair its business and image.

## PROPERTIES

The corporate headquarters of CISC is located at Tower A, Rongchao Commerce Center, No.6003 Yitian Road, Futian District, Shenzhen, the PRC. As of the Latest Practicable Date, CISC owned 16 properties in the PRC with an aggregate gross floor area of approximately 7,643 square meters. In addition, CISC leased 260 properties with an aggregate gross floor area of approximately 168,004 square meters.

As of June 30, 2016, the carrying amount of the property interests of CISC (comprising (i) buildings, (ii) office equipment, furniture and fixtures, (iii) leasehold improvements, (iv) construction in progress and (v) land use rights) represented approximately 0.9% of its total assets.

**Owned Properties in the PRC**

As of the Latest Practicable Date, among the 16 self-owned properties in the PRC, CISC has obtained complete and valid building ownership certificates and land use rights certificates for two properties with a gross floor area of approximately 6,936 square meters, representing approximately 90.7% of the aggregate gross floor area of the properties that it owned. The PRC legal advisors confirmed that for such two properties, CISC has the legal ownership and therefore has the right to occupy, use, transfer, lease, mortgage or otherwise dispose of such properties.

As of the Latest Practicable Date, among the properties owned by CISC, CISC has not obtained proper building ownership certificates and/or land use rights certificates for 14 properties in the PRC with a total gross floor area of approximately 708 square meters, representing 9.3% of the aggregate gross floor area of the owned properties of CISC as these properties are under the local government housing scheme for talents of Shenzhen and other qualified citizens of Shenzhen and only individuals and families are eligible to apply for the building ownership certificates/land use rights certificates, and the building ownership certificates and/or land use rights certificates of such properties could not be obtained from the local government of Shenzhen.

CISC has not been advised by any governmental department or other person to cease the use of the properties with defective titles for its business activities, or to pay fines or make compensations. As confirmed by the PRC legal advisors of the Company, as the 14 properties were lawfully acquired by CISC from Shenzhen Housing Authority, according to *Reformation and Innovation Policy on Housing System of Shenzhen* (《深圳市住房保障制度改革創新綱要》), a governmental policy published by the Shenzhen Municipal People's Government permitting enterprises (such as CISC) to purchase public rental housing to provide housing and accommodation for their staff and the agreements entered into with Shenzhen Housing Authority, CISC is entitled to occupy and use such properties to provide housing and accommodation for its staff and CISC should not be subject to any fines provided that it shall not use such properties for any other purposes or breach the terms of the agreements entered into with Shenzhen Housing Authority. The directors of CISC believe that the above 14 owned properties with defective titles are not critical to, and will not have any material impact on, the operations of CISC because (i) CISC should be able to substitute the properties with other comparable buildings, if necessary, without any material adverse impact on its operations, business or financial condition; (ii) the majority of its securities and futures brokerage branches are located on its leased properties and the 14 owned properties are only used for staff housing and accommodation, and (iii) CISC is entitled to occupy and use such properties to provide housing and accommodation for its staff and CISC should not be subject to any fines provided that it shall not use such properties for any other purposes or breach the terms of the agreements entered into with Shenzhen Housing Authority.

**Property under Construction in the PRC**

As of the Latest Practicable Date, CISC held one property under construction with an aggregate site area of 4,337 square meters, for which CISC has obtained the land use right certificates and the construction permits required under PRC law. As of June 30, 2016, the carrying amount of the relevant parcel of land amounted to approximately RMB538.1 million, representing approximately 0.69% of the total assets of CISC. On October 11, 2016, Nanshan Bureau of Urban Planning, Land & Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會南山管理局) ("**Nanshan Bureau**") issued an idle land investigation notice to CISC in relation to the delay in commencement of construction work for one year. As of the Latest Practicable Date, construction of this property has not commenced. The delay in commencement of construction work was primarily due to the reason that the issue of certain construction approval was significantly delayed to November 2015 as a result of prolonged discussions among the relevant authorities, Shenzhen Metro Group Co., Ltd. and CISC in relation to the location for installing a subway station cooling tower.

According to the Measures on the Disposal of Idle Land (《閒置土地處置辦法》) promulgated by the Ministry of Land and Resources of the PRC, if the construction has not commenced after one year from the prescribed date of commencement, a surcharge on idle land equivalent to no more than 20% of the idle land fees may be levied; if the construction has not commenced after two years from the prescribed date of commencement, the land can be forfeited without any compensation. However, if the delay of commencement is caused by government actions or force majeure, CISC may negotiate with the relevant authorities for postponing the commencement date and extending the time period for development and construction of the property.

CISC is in the process of communicating with Nanshan Bureau to postpone the commencement date and extend the construction period. The amount of idle land fees and penalty for delay in construction work, if any, is subject to the decision of the relevant government authorities. According to the preliminary discussion with Nanshan Bureau, CISC is of the view that even if an idle land fee or penalty decision is made in relation to the given land, CISC would not be subject to forfeiture of land for such delay in commencement of construction provided that it commences construction within one year from the date of the imposition of the idle land fee or the penalty decision. The PRC legal advisors are of the view that the risk that CISC would be subject to forfeiture of land is relatively low given that (i) the delay in commencement of construction was affected by the prolonged discussions in relation to the installation location of subway station cooling tower; (ii) the Office of Financial Services Development of the Shenzhen Municipal Government has provided a letter of support on November 15, 2016 to the Nanshan Bureau evidencing the government cause on CISC's delay in commencement of construction and requesting for the support and understanding from Nanshan Bureau in relation to the matter; and (iii) CISC has agreed that it will commence construction on the given land within the timeframe to be required by Nanshan Bureau.

The directors of CISC consider that such delay will not have material operational or financial impact on CISC given that: (i) the delay in the commencement of construction is due to administrative restrictions and prolonged site planning process as described above; (ii) the risk that CISC would be subject to forfeiture of land is low; (iii) CISC's maximum exposure to idle land fees, in a worst case scenario, accounts for less than 1% of the total revenue of CISC for the year ended December 31, 2015; and (iv) CISC can continue to operate its business with its current office buildings.

**Leased Properties in the PRC**

As of the Latest Practicable Date, CISC leased 260 properties in the PRC with an aggregate gross floor area of approximately 168,004 square meters. The leased properties are primarily used for business and office purposes, with a gross floor area ranging from approximately 0.5 square meters to 20,642 square meters. These include:

- 189 leased properties with an aggregate gross floor area of 124,622 square meters, representing approximately 74.2% of the aggregate gross floor area of the buildings leased by CISC, the landlords of which had obtained the relevant building ownership certificates or the documents authorizing the leasors to lease out these properties. The PRC legal advisors are of the view that the lease arrangements are legally effective.

- 71 leased properties with an aggregate gross floor area of 43,382 square meters, representing approximately 25.8% of the aggregate gross floor area of the buildings leased by CISC, the landlords of which were unable to provide title certificates or the documents authorizing the leasors to lease out these properties. CISC uses these properties mainly as office space. If any disputes regarding the title of or right to lease these properties occur, it may affect the ability of CISC to continue leasing such properties. As of the Latest Practicable Date, CISC was not aware of any incidents that have arisen due to the safety conditions of these properties and not aware that the relevant building ownership certificates were not obtained due to the safety conditions of these properties. Among such 71 leased properties, landlords of 9 properties have agreed in the lease agreements that they will indemnify CISC for any damages resulting from the defective title. The PRC legal advisors are of the view that CISC is entitled to claim compensations from the landlords with respect to the 9 properties in accordance with relevant lease agreements in the event that it incurs any losses resulting from the defective title.

- The leasing agreement of one property with an aggregate gross floor area of 150 square meters, representing approximately 0.1% of the aggregate gross floor area of the buildings leased by CISC, has expired. The directors of CISC confirmed that the negotiation regarding renewal of such agreement is under way. In the event that CISC is unable to renew the lease, the directors of CISC believe that CISC will be able to find substituted place nearby.

- Five properties with an aggregate gross floor area of approximately 5,036 square meters, representing approximately 3.0% of the aggregate gross floor area of the buildings leased by CISC, having been used as mortgage or security prior to being leased by CISC. CISC uses these properties mainly as office space. CISC may be unable to enforce the lease agreements due to the prior mortgage or security. Among such five leased properties, landlords of four properties have agreed in the lease agreements that they will indemnify CISC for any damages resulting from the defective title. The PRC legal advisors are of the view that CISC is entitled to claim compensations from the landlords with respect to the four properties in accordance with relevant lease agreements in the event that it incurs any losses resulting from the defective title.

In the event that CISC is unable to enforce the lease agreements or are required to relocated due to the objection of any third parties regarding the title of or right to lease the properties, the directors of CISC believe that CISC will be able to find substituted place nearby. The directors of CISC believe that although CISC may incur additional relocation costs therefrom, there would be no material impact on the business or financial conditions of CISC because of (i) the limited size of these leased properties as compared with the total size of all the properties in use; (ii) the fact that these leased properties can easily be substituted by comparable premises; and (iii) the indemnifications from certain landlords pursuant to which CISC would be able to recover damages.

As of the Latest Practicable Date, among all CISC's leased properties, CISC has filed the lease agreements in accordance with PRC laws for 50 properties, with a total gross floor area of 61,126 square meters, but has yet to file the lease agreements for the remaining 210 properties, with a total gross floor area of 106,878 square meters. The failure to file the lease agreements is primarily due to administrative difficulty as the filing would require the cooperation of other independent third parties. CISC is discussing with local authorities and working with those independent third parties to file the leasing agreements. The PRC legal advisors believe that failure to file these lease agreements will not affect the validity of the lease agreements according to the relevant PRC laws. However, the real estate administrative authorities may require the parties to the lease agreements to complete lease registration within a prescribed period of time and failure to do so may subject the parties to the lease agreements to fines from RMB1,000 to RMB10,000. Given the maximum penalty for failure to file the lease agreements is RMB10,000 for each lease agreement without affecting the validity of the relevant lease agreements, the directors of CISC consider that delay in filing the lease agreements for the remaining 210 properties will not have any material operational and financial impact on CISC.

**Overseas Properties**

As of the Latest Practicable Date, CISC leased three properties with a total gross floor area of approximately 15,168 square feet in Hong Kong. CISC uses these three leased properties as office space. Among them, the lease for two properties with a total gross floor area of approximately 8,949 will expire on February 6, 2017, and the lease for the other property with a total gross floor area of approximately 6,219 square feet will expire on June 30, 2017. These lease agreements have been entered into in accordance with local legal requirements and are valid and binding.

## RISK MANAGEMENT

**Overview**

The risk management takes a crucial position in the development strategy of CISC. Through active risk management and compliance and stable operation, CISC aims to reduce uncertainties related to its business strategies. Since its incorporation in 2005, CISC has established sound corporate governance, as well as effective risk management and internal control systems in order to manage the risk exposure in the securities market. CISC has received a regulatory rating of "Class A Grade A" or above from the CSRC for ten consecutive years since 2007 when the CSRC adopted the rating framework.

**Risk Management System**

In accordance with the requirements of the *Guidelines for the Internal Control of Securities Companies* (《證券公司內部控制指引》) and taking into account the operational needs, CISC has established a three-level risk management structure, consisting of: (i) the board of directors and the risk management committee; (ii) senior management, including the executive committee and risk control committee; and (iii) departments in charge of risk management (including risk management department, legal and compliance department and audit department) as well as risk management functions in business departments and branches.

The following chart sets forth the risk management structure of CISC:


***The Board of Directors and Risk Management Committee***

The board of directors is the highest risk management decision-maker and is ultimately responsible for the effectiveness of the overall risk management system of CISC. The board is responsible for: (i) overseeing the overall risk management targets, risk management policies and internal control systems; (ii) optimizing the governance structure and authorization system; (iii) reviewing the risk management organizational structure and respective responsibilities; and (iv) instructing other departments on their risk management responsibilities.

The risk management committee is tasked by the board of directors to undertake risk management responsibilities, which mainly comprise: (i) reviewing and making recommendations on the overall compliance and risk management targets and fundamental policies; (ii) reviewing and making recommendations on the organizational structure and responsibilities of compliance and risk management functions; and (iii) reviewing and making recommendations on compliance and risk management reports which require the board of directors' review. As of June 30, 2016, the Risk Management Committee of CISC comprised three directors and was headed by Mr. Liu Junhai (劉俊海).

***Senior Management***

*Executive Committee and Risk Control Committee*

The executive committee is responsible for enforcing CISC's risk management policies.

The risk control committee reports to and is governed by the executive committee, and it provides decision-making support in matters that may expose CISC to material risk. As of June 30, 2016, the risk control committee of CISC consisted of eight standing committee members. These eight standing committee members mainly comprised by persons in charge of different business departments and was headed by Ms. Chen Ping (陳平), the chairperson of the risk control committee. Ms. Chen Ping started to lead CISC's risk management work since 2014 and she is also the chief manager of the risk management department.

*Chief Risk Manager and Chief Compliance Officer*

Under the applicable PRC laws and regulations, a PRC securities firm is required to have a chief risk manager and a chief compliance officer. As of June 30, 2016, these two positions of CISC are both assumed by Ms. Chen Ping (陳平), who has 18 years of experience in PRC securities and finance industry. The chief risk manager (chief compliance officer) undertakes the overall risk management responsibilities of CISC in accordance with the regulatory requirements and CISC's risk management strategies, which mainly comprises: (i) improving the overall risk management system; (ii) monitoring the risk level and risk management situation of CISC thoroughly and report to the board of directors and the executive committee of CISC; and (iii) monitoring the potential risks and providing rectification advices accordingly.

***Departments in Charge of Risk Management***

The departments in charge of risk management of CISC include:

- *the risk management department*, which is responsible for monitoring, evaluating and reporting the overall risk level of various business lines of CISC through monitoring the business operation process, participating in decision-making of material business issues and providing risk management advice in relation to the material business strategies. The risk management department has four groups with each focusing on market risk, credit risk, operational risk and liquidity risk, covering risks arising from different business lines;

- *the legal and compliance department,* which is responsible for managing the legal risks associated with the business operations, participating in decision-making of material business issues, providing legal and compliance advice in relation to the material business strategies of CISC, as well as establishing and improving internal compliance and legal service protocols;

- *the audit department,* which is responsible for the post-event assessment of the risks in business operations so as to timely reveal legal irregularities and any deficiencies in internal control measures, providing risks mitigation supports.

***Risk Management Functions in Business Departments and Branches***

Each of the business departments and branches of CISC is required to designate divisions in charge of risk management or risk management personnel to monitor, analyze and manage its risk exposure during the daily operations, and taking specific risk management measures to mitigate relevant risks.

**Monitoring and Management of Major Risks**

CISC monitors and manages the operational risk, credit risk, market risk and liquidity risk arising in its business operations.

***Operational Risk***

Operational risk refers to the risk of direct or indirect financial loss resulting from the insufficient staff management and problematic internal operation procedures or trading systems. CISC manages to minimize operational risks by strengthening staff management, improving the construction of various systems, optimizing relevant rules and procedures and enhancing the examination and supervision. In addition, CISC has set up an operational risk management platform, which can identify, report, assess, deal with and trace the risk issues. CISC also adopted following measures in various business lines:

- in respect of the securities brokerage business, establishing and updating relevant rules according to regulations, policies and business development, enhancing the supervision and management in relation to abnormal transactions, proxy sale of financing products and the adequacy of clients. Risk issues can also be monitored, reported and timely solved through the operational risk management platform;

- in respect of the investment banking business, improving the internal control mechanism such as review initiating and internal audit, strengthening the supervision of business procedures, implementing risk reporting policy, optimizing the business processes, promoting compliant practices and setting up a business management IT system to manage risks associated with the investment banking business;

- in respect of the proprietary trading business, establishing a multi-level authorization system and segregating staff from conflicted businesses. CISC establishes a multi-level decision making mechanism including the board of directors, executive committee, investment decision making committee and business departments. Investment managers conduct investment within their authorization. In addition, investment managers and personnel in charge of trading and settlement cross check with each other in respect of important issues;

- in respect of the asset management business, complying with the relevant procedures and terms of the contracts, keeping the indicators in accordance with the product description and the regulatory requirements and fixing the technologies of material processes of the investment such as decision-making, review and approval, authorization and maintenance of the securities pool to prevent operational risk; and

- in respect of the margin financing and securities lending business, conducting reasonable countercyclical adjustment and management, enhancing the limits review and the risk monitoring.

***Credit Risk***

Credit risk refers to the risk resulting from the failure of a debtor or a counterparty to perform its contractual obligations on time. The credit risk mainly exists in the margin financing and securities lending business, purchasing securities by borrowings and selling the borrowed securities business. CISC manages the credit risks with credit risk quotas, internal risk rating, quantitative management of the collaterals, econometric model of the credit risks and stress testing.

For credit risk in the margin financing and securities lending business, CISC established a multi-level business authorization management system and a complete risk management system covering the whole business progress. With respect to client management, CISC efficiently matches the credit situation of the clients with the financing scale mainly through credit rating and due diligence. With respect to collateral management, the discount rates are determined with reference to the liquidity, pricing fluctuations and the profitability, which can reduce the loss caused by default of clients. The research department is in charge of the daily motoring of the market situation, and the credit business department adjusts the discount rates and guarantee ratios, while the risk management department reviews each transaction, calculates the expected losses and unexpected losses of the business and conducts stress tests.

For credit risk in the debt financing business, CISC manages the credit risk and the risk of default of counterparties by establishing a credit review mechanism. The investment objects and the requirement of the credit rate of counterparties are limited by business authorization, and CISC diversifies the investment by setting an concentration indicator to reduce losses due to default of counterparties.

***Market Risk***

Market risk refers to the possibility of loss or a decrease in income or assets resulting from changes in the market, including the risk of price fluctuation in equity-based assets, interest rate risk and exchange rate risk. CISC conducts analysis and assessment of market risks by VaR and stress testing, monitors its market risks in various business, calculates and sets market risk limits and improves relavent risk management measures.

For market risk in the proprietary trading business, the board of directors determines the risk limits and scale of such business, the investment decision making committee under the executive committee makes collective decision in relation to the allocation of the investment targets, investment strategies and the securities pool. The business departments dynamically manage the market risk and actively reduce the risk exposures or conducts hedging activities when proper. The risk management department conducts real-time monitoring and report on the scale of the investment, the profit situation and the allocation of the investment targets.

For NEEQ business, the board of directors reviews and approves the scale of funding and the risk limits, and significant matters are resolved by the market making securities allocation committee.

For the asset management business, significant matters are resolved by the asset management decision making committee. CISC conducts review, monitoring and risk assessment of material business matters in order to manage the market risks of the asset management business.

*Liquidity Risk*

Liquidity risk relates to the risk of situations in which securities firms could not get timely capital injection under reasonable cost, to repay due debts, fulfil other payment obligations or satisfy the capital needs for normal business operation.

In order to prevent liquidity risk, CISC has adopted the following measures:

- establishing various management measures which include liquidity risk preference and emergency plans of the liquidity risks;

- establishing the liquidity risk management structure and corresponding examination and accountability mechanism, clarifying the responsibilities of relevant departments, among which, the planning and finance department is responsible for the daily management of the liquidity management, while the risk management department is responsible for promoting the establishment of the overall risk management system; and

- continuously monitoring the liquidity indicators on a daily basis and specifying the responsible personnel, the processing programs and the reporting procedures of the emergency plans.

## RISK MANAGEMENT AND INTERNAL CONTROL MEASURES IN MAJOR BUSINESS LINES

CISC implements various risk management and internal control measures to manage the risks associated with its business operations.

**Brokerage Services**

*Securities Brokerage Services*

To manage the risks associated with the securities brokerage services, CISC has taken the following measures:

- *Segregation of front, middle and back offices.* The major business functions of securities brokerage services of CISC, such as sales and marketing as well as operation management, are clearly segregated. The sales and marketing department is responsible for product marketing and sales and providing wealth management and client services. The trading and operation department is responsible for managing of client accounts, trading and funds deposit and directing the business operations of the branches. The risk management department and the legal and compliance department conduct independent monitoring and analysis of the risk in the securities brokerage services and designate special personnel to assess risk and compliance situation in significant business matters.

- *Segregation of key business positions.* Positions in charge of account opening, trading and funds deposit are the key positions of the securities brokerage services. CISC has adopted a dual-review mechanism which designates operating and review function to different staff for any operations related to the funding accounts and securities accounts of its clients. In addition, for certain key businesses such as the adjustment of funds or shareholdings of the clients, CISC has adopted a dual-approval procedure that requires approvals at the branch level and from the headquarters.

- *Unified and standardized management of business processes.* CISC has established a detailed and comprehensive management mechanism for the business process of its securities brokerage services, which clearly defined the responsibility and requirements for each business position in each stage.

- *Centralized management of high-risk business services.* CISC has centralized management and approval mechanism for business services with high risks, including consignment of financial products, innovative services and the adjustment of funds or shareholdings of the clients.

- *Regular risk monitoring and onsite inspections.* The trading and operation department is responsible for the overall risk monitoring of the business operation of the securities brokerage services in accordance with its responsibility, and the risk management department supervises relevant business departments and branches' performances in respect of the risk monitoring and conducts selective examinations on business data. Furthermore, the trading and operation department and the audit department conduct regular onsite inspections on all branches independently and separately. The common issues discovered in such inspections will be timely reported and handled.

***Capital-based Intermediary Services***

- *Credit rating and multi-level credit approval procedures.* CISC assesses clients' credit ratings based on their assets, income, age, investment ability, profitability and credit record, and grants credit to clients according to these indicators. Furthermore, corresponding approval procedures have been set up based on the amount of credit lines applied for. Under the current approval procedure, credit lines below RMB2 million, between RMB2 million and RMB30 million, between RMB30 million to RMB50 million, and over RMB50 million are subject to approval from, respectively, the responsible credit manager, the credit business department, the chairman of assets allocation committee, and two-thirds of all asset allocation committee members.

- *Margin deposit management mechanism*. CISC strictly manages the margin deposit ratio of clients who engage in margin financing and securities lending in accordance with the requirements of stock exchanges. According to the internal policy of CISC, the margin deposit ratio for accounts of clients engaging in margin financing should not be below 100%, and the margin deposit ratio for accounts of client engaging in securities lending should not be below 60% in principle. Meanwhile, the margin deposit ratio will be adjusted in line with the market conditions.

- *Differentiated collaterals management mechanism*. CISC has set basic criterions for collaterals of clients engaging in margin financing and securities lending. For collaterals which have met such criterions, different discount rates would be applied according to their values based on the requirements of the stock exchanges. The basic criterions and discount rates are updated regularly, and can also be adjusted flexibly according to the market conditions.

- *Multi-level risk monitoring mechanism*. CISC has established a multi-level risk control system for the margin financing and securities lending services. The branches and the credit business department are responsible for monitoring daily business operation of the margin financing and securities lending services within their own branch and the whole group, respectively. The credit business department will extract, on a daily basis, a list of clients whose maintenance margin ratio is below the warning line or the limit for liquidation of positions or whose contracts would expire soon and send risk notice text message to such clients. The list will also be issued to the branches of CISC, which will notify such clients once more by various means such as text message and telephone. Furthermore, the risk management department is responsible for establishing mathematical model evaluating risks of financing business and monitoring margin maintenance ratio, with a view to ensuring the overall credit risk is in line with the risk preference of CISC.

***Future Brokerage Services***

To manage the risks associated with the securities brokerage services, Tianqi Futures has taken the following measures:

- Segregation of front, middle and back offices;

- Segregation of key business positions;

- Unified and standardized management of business processes;

- Centralized management of high-risk business services; and

- Regular risk monitoring and onsite inspections.

**Investment Banking**

To manage the risks associated with investment banking business, CISC has taken the following measures:

- *Project Inception*. CISC has set up a quality review committee for both equity financing and debt financing services. The members of the quality review committee are from relevant business departments, legal and compliance department and risk management department, and are independent from the projects teams. The quality review committee is responsible for reviewing the projects that CISC acts as sponsor, underwriter or financial advisor to ensure the quality of such projects have met the criterion of CISC.

- *Due Diligence*. The project team conducts thorough due diligence on each project, including but not limited to due diligence on corporate governance, financial system and compliance with laws and regulations. The plans and steps of the due diligence work will be recorded in the due diligence report and the results will be recorded in the application materials.

- *Internal Review Meeting*. Internal review is the key process to determine whether a project can be submitted. CISC has set up an internal review committee for both equity financing and debt financing services as well as an internal review team for NEEQ services. The members of the internal review committee and the internal review team are independent from the members of the project teams. The internal review committee or the internal review team will convene an internal review meeting to review the application materials submitted by the project teams, which will report on the internal review meeting and reply to the inquiries from the internal review committee. The project teams would further modify the application materials according to the review results and the recommendations from the internal review committee. The project application materials can only be officially submitted to the regulatory institutions after they have been approved by the internal review meeting.

- *Management of the underwriting risks*. CISC has set up a capital commitment committee for both equity financing and debt financing services. The underwriting projects involving underwriting responsibilities must be reviewed and approved by the capital commitment committee before launched. The capital commitment committee, comprising of relevant personnel from the senior management of CISC, business departments, legal and compliance department, risk management department, planning and finance department and research department of the headquarters, is responsible for determining the material items including the offer price and sales.

- *Information Segregation Mechanism*. CISC has set up an adequate internal information management measures to prevent insider trading, avoid conflict of interest and minimize the circulation processes of the confidential information so as to reduce the risk of information leakage. CISC requires its investment banking business to be segregated from other businesses. Major functions, such as IT as well as funds and accounts are also strictly segregated.

**Asset Management**

To manage the risks associated with the asset management business, CISC has taken the following measures:

- *Multi-level authorization.* CISC has established an asset management decision committee as the decision-making body for the investment within the authorization of the board of directors. The asset management decision committee is responsible for the review and the approval of significant matters of the asset management plans such as the assets allocation, investment quota and risk limits. With respect to the operation of asset management service, the investment managers are authorized to execute the specific investment plan and operation within their authorization.

- *Investment quota management*. The investment quotas of the CISC include the allocation ratio, single security's allocation ratio and stop-loss limits, which are determined by the asset management decision committee. The business departments will conduct real-time monitoring of the investment quotas and handle exceeding-quota matters in time. The risk management department will supervise on the business departments with regard to the execution of the investment quota.

- *Securities pool*. CISC has a three-level securities pool available for its asset management plans to invest in. It has established a stringent criterion and selection process as well as a flexible adjustment mechanism for the securities in the securities pool, and securities of different levels also have different requirement of the research report. The asset management plans of CISC are required to invest in the securities in the securities pool according to the authorized ratio of the asset management policy committee.

- *Independent risk assessment and quantitative management.* The internal control departments review and approve the products of collective asset management schemes, targeted asset management schemes, specialized asset management schemes and ABS business, while the legal and compliance department conducts an overall management of the legal risks involved in products of relevant agreements and significant decisions. The risk management will give independent advice on the products design scheme, asset assignment structure and client risks to assist the risk management department in making investment decisions, and use risk quantification tools like VaR to assess, manage and report on the risks of the asset management business.

- *Supervisory on securities and abnormal trading*. CISC has created a list of securities which may cause interest transfer. The list is managed by the legal and compliance department, and the risk management department is responsible for monitoring abnormal trading which involves securities on such list or happens to the accounts of the asset management or/and the proprietary trading business. If the risk management department detects any abnormal trading, it will inform the legal and compliance department, launch an investigation and report accordingly in a timely manner.

**Proprietary Trading**

CISC has adopted following measures to manage the risks associated with its proprietary trading business:

- *Multi-level authorization and decision-making procedures.* CISC has adopted a multi-level investment decision-making mechanism including the board of directors, the executive committee, the investment decision-making committee and business departments. The board of directors sets the scale of the investment and the risk limitations; the executive committee is responsible for the decision-making over significant matters related to investment business within the authorization of the board of directors. The executive committee delegates authorities to investment decision-making committee, the directors of business departments and investment managers according to different investment principles. Each level conducts investment business within its authorization.

- *Investment limitations.* CISC has established various investment limitations including the scale of funding, concentration, sensitivity and stop-loss limit. The business departments are the executive bodies of such limitations and the risk management department conducts independent supervision and report.

- *Risk hedging and quantitate management*. The business departments of CISC spread the risk through diversified investment portfolios and conduct hedging activities with financial derivatives. The risk management department has established a market risk management system to quantitatively manage the market risk with VaR and other tools.

- *Segregation of information and businesses*. CISC has established a complete information segregation mechanism to prevent insider trading and other unlawful trading. Business departments that are conflicted are separate from each other in respect of the personnel, information system, funding and accountings. The risk management department and legal and compliance department are responsible for monitoring irregular transactions.

**Other Businesses**

***Institutional Sales and Trading***

CISC has adopted the following measures and policies to manage the risks associated with its institutional sales and trading business:

- Personnel from the institutional sales and trading business department are prohibited from practicing in other entities outside of CISC;

- Personnel from the institutional sales and trading business department are segregated from other departments of CISC (such as securities brokerage, proprietary trading and asset management) so as to prevent insider trading and market rigging;

- Personnel from the institutional sales and trading business department are prohibited from divulging non-public information to personnel from other departments of CISC;

- Seminars and events that require approval and authorization cannot be kicked off without completely going through the requisite approval process.

In addition, compliant operation is an important element in human resource evaluation and the result of which is directly linked to employees' positions, responsibilities, and pay grades. CISC strives to minimize operational risks involved in its institutional sales and trading services by clarifying policies, standardizing operation procedures and rigorously implementing such polices and standardized procedures.

***OTC Business***

Through implementing various measures such as the review and decision-making mechanism (regarding OTC product admission and risk rating), investor suitability management and standardized OTC business operations, CISC has established an integrated risk management regime for its OTC business, covering product design and issuance, listing registration, sales transactions and business operation. CISC has also formulated a series of internal rules and protocols accordingly.

With respect to its NEEQ market-making business, CISC has established a risk control system to identify, assess and alert to associated market risk, liquidity risk and operational risk, and has established a risk monitoring IT system to monitor gauges such as the indicators of business scale, degree of concentration and net capital.

***Private Equity***

CISC Luckystone, CISC's wholly-owned subsidiary, manages the risks associated with its private equity business. CISC Luckystone sets up and manages private equity funds primarily through fund management companies over which CISC Luckystone has control, through shareholding, in corporate governance, business management, risk control and investment decision-making. Each fund management company operates independently and each fund is being managed independently.

CISC Luckystone has established measures regarding compliance management, investment management and risk control management and requires all fund management companies to build up their own policies in accordance with the ones set up by CISC Luckystone. Each fund has its own independent investment decision-making committee.

CISC Luckystone targets equity investment in companies with capital growth and listing potentials or significant value for merger and acquisition. The funds are set up in accordance with raised fund being the primary source and its own fund as secondary source, so as to diverse its portfolio and minimize the investment risks. Its shareholdings in those portfolio companies through its funds usually do not exceed 30%.

***Alternative Investment***

Alternative Investment Company, CISC's wholly-owned subsidiary, manages the risks associated with its alternative investment business. Alternative Investment Company has established its own investment decision-making committee, risk management committee which reports directly to the board of Alternative Investment Company. The investment decision-making committee is responsible for reviewing and approving investment decisions while the risk management committee is responsible for risk control, so as to identify, control and prevent investment risks. Alternative Investment Company has built up a series of internal rules and protocols which cover project filing, due diligence, investment decision-making, post-investment management and exit mechanism, and has established a multi-level system to minimize the risks associated with its business:

- *Board of Directors*. The board of directors of Alternative Investment Company is responsible for formulating general investment plans, as well as reviewing and deciding on any projects, such as equity investments, debt investments and private equity fund subscriptions, that are beyond the authorized scope of the investment decision-making committee.

- *Investment Decision-making Committee*. The investment decision-making committee reviews equity investment decisions within its authorities granted by the board, and provides professional opinions to the board to facilitate decision-making.

- *Risk Management Committee*. The risk management committee reports directly to the board of Alternative Investment Company and it is responsible for providing professional reference opinions with regard to the risk management work in investment decision-making. It is responsible for reviewing the general risk management mechanism of Alternative Investment Company, assessing, supervising, and reporting on how such mechanism functions and identifying the risks involved in investment projects.

- *Chief Manager Office*. The chief manager office of Alternative Investment Company is responsible for formulating business development plans, executing the decisions made by the board, project review and management at the inception of, before and after the investment, standardizing operation protocols, supervising relevant investment management departments and reporting to the board.

- *Risk Control and Compliance Department*. The risk control and compliance department is responsible for enacting the detailed risk management guidance and principles.

- *Business departments*. Business departments are the first defense of Alternative Investment Company's alternative investment business. The equity investment department identifies and assesses potential business risks and enacts risk management measures. The general management department, Alternative Investment Company's accounting department, is responsible for identifying and assessing accounting risks as well as establishing measures to prevent accounting risks.

**Overseas Business**

CIS HK is a wholly-owned subsidiary of CISC incorporated in Hong Kong. CIS HK has an independent senior management team, risk management procedures, operational personnel, assets, financial management system and IT system.

Through an effective segregation of duties among the front, middle and back offices as well as checks and balances among various positions, CIS HK has established clearly defined procedures for operations, management and control, enabling effective mechanisms for reporting, handling, monitoring and response with risk control measures encompassing the entire business and operation process.

The major risks in the business operation of CIS HK are credit risk, compliance risk and the risks associated with its proprietary trading business. To manage these risks, CIS HK has a risk management committee in place under its board of directors. The board of directors of CIS HK is responsible for formulating risk management strategies and directing the overall risk management. The risk management committee is the risk management decision-making body, and the standing members of which include senior executives and personnel in charge of risk management, financial affairs and compliance. Persons in charge of relevant business departments will also be invited to attend the committee meeting.

CIS HK has implemented various risk management measures for its main business lines. The legal and compliance department has assigned special personnel in charge of the risk management. As for managing the credit risks, CIS HK established a credit management committee for the credit business, responsible for review and approval of the credit limits and other risk management responsibilities.

**Chinese Wall and Conflict of Interest**

A Chinese wall is a barrier to protect sensitive information from being transmitted between, or being used by, businesses with conflicts of interest, and includes a series of measures to prevent the occurrence of conflicts of interest between CICS and clients, among different clients, and among the different business lines of CISC.

As a securities firm with a diversified range of businesses and products, CISC will inevitably face conflict of interest situations. In order to protect the interests of clients and to maintain good reputation, CISC has established Chinese walls in different business lines to prevent and minimize potential conflicts of interest by controlling the flow of sensitive information and making rules and policies on information segregation. The board of directors of CISC and the directors of business departments are responsible for ensuring the effectiveness of Chinese walls. Specifically, CISC has implemented the following measures:

- essentially realizing the segregation of business, employee, physical and informational system, funds, and accounts within CISC;
- establishing relevant protocols and guidance based on the concept of "client first"; minimizing the procedures by which information is being communicated internally and keeping the information within necessary personnel;
- by signing confidential agreement and setting up internal policies, specifying employees' duty of confidentiality, in order to prevent the disclosure or misuse of sensitive information;

- building up a strict wall-bypassing managing and authorization mechanism; strictly managing temporary inter-department personnel exchange;
- maintaining watch list and restrictive list to minimize potential conflicts;
- building up a gag period policy; under which if CISC's researchers are temporarily involved in underwriting, sponsoring or financial advising projects, they are not permitted to release their research reports relating to the projects involved and not permitted to use non-public information in their reports.

**Segregation of Duties**

To minimize the possibility of collusion and improper trading, duties and functions within various business departments of CISC are assigned to different teams of employees. No employee may work concurrently for two or more departments with conflicts of interest.

Employees of business departments are not allowed to work concurrently in the subsidiaries with conflicts of interest. Employees are not allowed to work in the IT department, planning and finance department or departments with supervision and inspection functions at the same time. Personnel working in the settlement and custody department are not allowed to concurrently work in the IT department or trading departments.

**Anti-Money Laundering**

CISC has incorporated anti-money laundering procedures into internal control system and daily operation in strict compliance with PRC laws and regulations on anti-money laundering as well as relevant requirements of the PBOC and the CSRC.

CISC has established various measures of anti-money laundering in respect of client's identity information and transaction records documenting, client risk rating, auditing, internal investigation, and employee training. CISC had also provided anti-money laundering training programs for employees and improved the understanding of clients on anti-money laundering through campaign activities. It also actively cooperates with the PBOC in various anti-money laundering actions such as on-site inspection and off-site supervision.

During the Track Record Period, CISC did not engage in, or knowingly assist, any money laundering activities. For risks regarding money laundering activities, see "Risk Factors — Risks Relating to Internal Controls and General Operations — CISC may fail to detect money laundering and other illegal or improper activities in its business operations on a timely basis."

**Incidents Relating to the Former Chairman of CISC**

Mr. Long Zenglai (龍增來) served as the chairman of CISC from November 2011 to June 2015 and the chairman of Alternative Investment Company from February 2012 to June 2015. In May 2015, he was investigated by the Central Commission for Discipline Inspection of Communist Party of China (the "**Discipline Inspection Commission**") in relation to use of corporate funds for personal expenses by taking advantage of his position as the chairman of CISC.

As at the Latest Practicable Date, the investigation of the Discipline Inspection Commission had been concluded and the investigation results had been filed to Dezhou People's Procuratorate for further examination. As at the Latest Practicable Date, the investigation of Dezhou People's Procuratorate was pending. Based on the publicly available investigation results of the Discipline Inspection Commission, the total amount of money involved in this incident is approximately RMB211,410.

As the former chairman of CISC, Mr. Long was mainly responsible for, among others, (i) making decisions regarding material use of funds of CISC and principal business policies, (ii) controlling and monitoring financial conditions of CISC and the status of use of funds, and (iii) reviewing and deciding on CISC's internal administrative policies.

Immediately after this incident being brought to notice, CISC has undertaken a series of actions to rectify the deficiencies in corporate governance and internal control, including (i) terminating Mr. Long's roles in CISC in June 2015 and arranging a competent replacement to assume the relevant responsibilities, (ii) reviewing and improving its corporate governance system by amending and improving the rules of procedure for board meetings, (iii) enhancing its internal control by formulating and implementing various corporate governance policies in relation to use of corporate funds, and (iv) strengthening the education and compliance trainings for both management and employees to encourage ethical behavior and prevent potential wrongdoings.

Having considered that (i) CISC's potential exposure to the total amount of money involved in the incident is not material, (ii) a series of remedial and preventive measures taken to reinforce corporate governance and internal control system and (iii) the fact that except for Mr. Long, neither CISC, nor any other employees, senior management or directors are involved in the incident or under investigation or subject to any penalties in connection with the incident, the directors of CISC believe that this incident will not have material adverse effect on its business, financial condition and results of operations.

## LEGAL AND REGULATORY

### Licensing Requirements

CISC conducts business mainly in the PRC and Hong Kong. Therefore, it is subject to the relevant restrictions of the regulatory requirements of the PRC and Hong Kong and is required to obtain and renew its licenses from time to time in accordance with applicable laws and regulations. The directors of CISC confirmed that, during the Track Record Period and as of the Latest Practicable Date, CISC has obtained all the important consents and licenses for its operations in accordance with PRC laws and regulations. To the best knowledge of the directors of CISC after due inquiry, the directors of CISC confirm that, as of the Latest Practicable Date, all of its employees and brokers have obtained the relevant license as required for their business activities.

In compliance with the licensing regimes of the SFC, CISC's Hong Kong incorporated subsidiaries are required to obtain necessary licenses to conduct its business in Hong Kong. As of the Latest Practicable Date, four of CISC's Hong Kong subsidiaries (direct wholly-owned subsidiaries of CIS HK) have SFC licenses:

- China Investment Securities International Asset Management Limited (中投證券國際資產管理有限公司) holds a Type 4 License for advising on securities and a Type 9 License for asset management;

- China Investment Securities International Brokerage Limited (中投證券國際經紀有限公司) holds a Type 1 license for dealing in securities and a Type 4 License for advising on securities;

- China Investment Securities International Capital Limited (中投證券國際融資有限公司) holds a Type 6 License for advising on corporate finance;

- China Investment Securities International Futures Limited (中投證券國際期貨有限公司) holds a Type 2 License for dealing in futures contracts and a Type 5 License for advising on futures contracts.

The directors of CISC confirms that during the Track Record Period and as of the Latest Practicable Date, CISC has obtained all the important permits and licenses necessary for its operations in accordance with Hong Kong laws and regulations.

**Legal Proceedings**

CISC is a party to a number of legal proceedings arising from the ordinary course of business. The directors of CISC confirmed that, during the Track Record Period and up to the Latest Practicable Date, there is no legal proceeding pending or threatened against CISC or its directors that could, individually or in the aggregate, have a material effect on the business, financial condition or results of operations.

**Regulatory Non-compliances**

CISC is subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC and Hong Kong (including, but not limited to, the CSRC, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange, the SFC and their respective local branches and offices).

CISC or its employees have, from time to time, been involved in incidents of regulatory non-compliance and received notices, warnings or fines from the relevant regulatory authorities. Based on the nature of these cases, CISC classifies the incidents of regulatory non-compliance committed by it and its employees into the following two categories: (i) non-compliance incidents that led to or will likely lead to administrative fines, and (ii) non-compliance incidents that led to deduction of regulatory points.

*Non-compliance incidents that led to or will likely lead to administrative fines*

The non-compliance incidents that led to or will likely lead to administrative fines during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures CISC adopted are set out as below:

| Non-compliance incident | Brief explanation and the primary remedial measures |
|---|---|
| On November 10, 2015, CSRC issued an investigation notification to CISC in relation to CISC's failure to perform adequate and sufficient due diligence to discover the fraudulent statement in the materials when CISC served as the independent financial advisor to Fujian Jinsen Forestry Co., Ltd. (福建金森林業股份有限公司), in relation to its acquisition of Liancheng Lanhua Co., Ltd. (連城蘭花股份有限公司). On November 11, 2016, CSRC issued the letter of administrative penalty decision to CISC in relation to such misconduct, which (i) required CISC to correct the misconduct and imposed an administrative fine of RMB300,000 on CISC, and (ii) gave warnings to and imposed an administrative fine of RMB50,000 respectively on the two responsible persons. On November 29, 2016, CISC has paid to the CSRC the administrative fine of RMB300,000. | • Immediately after receiving the investigation notification, CISC conducted an internal investigation and found that there was no intentional violation and the incident was mainly due to employees' unintentional misconduct when conducting due diligence.<br><br>• In response to the regulator's decision, CISC (1) immediately conducted an internal review on risk control of the investment banking department and improved its standards on quality and risk control, and (2) engaged two additional experienced compliance officers to enhance the implementation of quality control measures. CISC will enforce the penalty decision in accordance with the letter of administrative penalty decision.<br><br>• As of the Latest Practicable Date, CISC has maintained normal business operations. The PRC legal advisors and the directors of CISC are of the view that the administrative penalty will not have material adverse effect on the financial conditions and business operations of CISC. |

*Non-compliance incidents that led to deduction of regulatory points*

Pursuant to the Regulations on Classification and Supervision of Securities Companies (證券公司分類監管規定), the benchmark points of a securities company with normal business operations shall be 100. On the basis of the benchmark points, appraisal points of a securities company shall be determined by awarding merit points or recording demerit points correspondingly based on the appraisal indices and standards of risk management capabilities of securities companies, market competitiveness, continuing compliance, etc. Where a securities company is subject to administrative punishment measures or regulatory measures adopted by the CSRC and its branches, criminal punishment by the judicial authorities or disciplinary action by the self-governance organization of the securities industry during the appraisal period for an illegal act or irregularity, the corresponding demerit points shall be recorded; where a securities company complies with certain criteria, the corresponding merit points shall be awarded. The CSRC classifies the securities companies into five types and eleven categories such as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the appraisal points of securities companies. The classification of securities companies is implemented by the CSRC and its delegated local branches, appraisals are conducted on an annual basis and the appraisal period starts on May 1 of the previous year and ends on April 30 of the current year. According to the principle of classified regulation, the CSRC sets up different standards on risk indicators, calculates proportions of risk capital reserve for different types of securities companies, and treats such companies differently in terms of regulation resource allocation and the frequency of on-site and off-site inspections. The outcome of categorization of securities companies shall serve as the prudential criteria for matters such as applications for addition of new business types by securities companies, new establishment of business outlets, issuance and listing, etc., and shall serve as the basis for determination of the pilot scope of new businesses and new products and promotion sequence as well.

The non-compliance incidents that led to deduction of regulatory points in 2013-2016 appraisal on classification of securities companies during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures CISC adopted are set out as below:

| Non-compliance incident | Brief explanation and the primary remedial measures |
|---|---|
| On November 27, 2015, China Securities Depository and Clearing Company Limited (CSDCC) suspended CISC's business qualification of conducting off-site account opening business for new account opening of A shares, B shares and close-end funds, for a period from November 28, 2015 to December 27, 2015, as CISC had conducted the innovative off-site account opening business without approvals from CSDCC. | • Immediately after receiving the regulatory decision, CISC (1) closed the concerned off-site account opening system and (2) conducted an internal inspection. This incident was mainly because CISC conducted the innovative off-site account opening business based on improper information due to employees' failure to fully understand relevant systems and policies.<br>• In response to the regulator's decision, CISC had further reinforced the compliance training of the employees to prevent the recurrence of similar incidents.<br>• CISC had submitted the rectifications report to Shenzhen Securities Regulatory Bureau on December 16, 2015. As of the Latest Practicable Date, CISC has not received any objections or follow-up comments on the remedial measures from the Bureau. |

| Non-compliance incident | Brief explanation and the primary remedial measures |
|---|---|
| On January 16, 2015, after an onsite inspection, CSRC issued a regulatory decision to CISC because CISC provided margin financing and securities lending services to certain clients of CISC or other securities firms controlled by CISC, whose trading record is less than six consecutive months. CSRC demanded CISC to enhance internal compliance inspections and complete the rectification within one month from the issuance date of the regulatory decision, and to submit a written report to CSRC in relation to its compliance inspection and implementation of rectification measure. | • In response to the regulator's decision, CISC has taken the following measures: (1) updating and improving the business operation protocol management for margin financing and securities lending business and collateralized stock repurchase business in accordance with the latest regulatory requirements, focusing on client account opening and client files management; (2) upgrading the review and approval platform of the margin financing and securities lending business, which could ensure that the trading record of clients who apply for credit accounts is more than six months and the value of their securities assets are not less than RMB500,000. CISC's Legal and Compliance Department is responsible for the implementation and follow-up supervision of the rectification measures. It would conduct regular and irregular internal compliance inspections to prevent the recurrence of similar incidents.<br><br>• CISC had submitted the rectifications report to the CSRC on February 13, 2015. As of the Latest Practicable Date, CISC has not received any objections or follow-up comments on the remedial measures from the CSRC. |

| Non-compliance incident | Brief explanation and the primary remedial measures |
|---|---|
| On December 4, 2014, Guangdong Securities Regulatory Bureau issued a regulatory decision to CISC's Guangzhou Tianhe Road Branch after an onsite inspection, demanding for rectification of its insufficiency in managing securities brokers' conduct and monitoring abnormal transactions of client accounts. | • Immediately after receiving the regulatory decision, the branch conducted an internal inspection and found that the issues was because certain securities brokers conducted securities trading on behalf of the clients. The branch has issued warnings to and imposed monetary penalties on the accountable employees.<br><br>• In response to the regulator's decision, the branch has taken the following measures: (1) conducting a special rectification action in respect of the marketing conducts; (2) strengthening the internal control mechanism and specifying the supervisory responsibilities; (3) conducting special inspection on the sale of financial products and reinforcing the adequacy of the sale activities; and (4) improving employees' compliance awareness through on-the-job training.<br><br>• CISC submitted the rectifications report to Guangdong Securities Regulatory Bureau on December 25, 2014. As of the Latest Practicable Date, CISC has not received any objections or follow-up comments on the remedial measures from the Bureau. |

| Non-compliance incident | Brief explanation and the primary remedial measures |
|---|---|
| Due to an overvaluation of the shares of Shenzhen Lingqi Company Limited (深圳市零七股份有限公司 "**Lingqi Company**") in a research report issued by CISC, the Shenzhen Stock Exchange interviewed relevant personnel of CISC on March 6, 2013 and Shenzhen Securities Regulatory Bureau issued a regulatory decision on December 24, 2013, concluding that the shares of Lingqi Company was not prudently valued and the research report was not issued with proper quality control and adequate compliance review. The Bureau required CISC to conduct more internal compliance inspections and submit a rectifications plan. | • Immediately after receiving the regulatory decision, CISC conducted a self-inspection in relation to the research report of Lingqi Company and found that the overvaluation was mainly due to insufficient research, certain researchers' lack of risk awareness, and the ineffective review mechanism of the research report.<br>• In response to the regulator's decision, CISC has taken following measures: (1) recalling the research report of Lingqi Company and supplementing necessary information to clients who had read such report; (2) organizing learning programs in the research department in relation to relevant regulations and internal systems of the securities industry and reinforcing the compliance concept; (3) strengthening researchers' training in respect of industry background, formulating an external industry expert list, and broadening access to industry statistics to increase research abilities; and (4) optimizing the review mechanism of research report with IT support.<br>• CISC submitted the rectification plan to Shenzhen Securities Regulatory Bureau on January 24, 2014. As of the Latest Practicable Date, CISC has not received any objections or follow-up comments on the remedial measures from the Bureau. |

| Non-compliance incident | Brief explanation and the primary remedial measures |
|---|---|
| On May 31, 2013, Qingdao Securities Regulatory Bureau conducted an investigation on Qingdao Shandong Road Branch of CISC as one former employee was suspected of illegally stealing capital from client's account. The branch received a regulatory decision demanding for comprehensive internal compliance inspection in each quarter from July to December of 2013 and submit compliance inspection report to the Bureau within 10 business days after each inspection. | • Immediately after receiving the regulatory decision, the branch conducted an internal investigation and found that the incident was due to deficiencies in internal control.<br>• In response to the regulator's decision, CISC has taken the following measures: (1) reinforcing internal control and employee education; (2) updating office computer software to mask the features of client's order (辦公電腦遮罩交易技術措施); and (3) improving the mechanism regarding processing client complaint and follow-up measures.<br>• The branch had submitted compliance inspection reports to Qingdao Securities Regulatory Bureau on October 22, 2013 and December 27, 2013, reporting on the implementation and outcomes of its rectification measures. As of the Latest Practicable Date, CISC has not received any objections or follow-up comments on the remedial measures from the Bureau. |

| Non-compliance incident | Brief explanation and the primary remedial measures |
|---|---|
| On March 1, 2013, Jiangsu Securities Regulatory Bureau issued a regulatory decision to Nanjing Wangfu Avenue Branch of CISC in relation to the following incidents: (i) improperly selecting participants for seminar on securities market without risk warning; and (ii) instructing clients to use a designated password as trading password, which violates the regulation that client should not be required to disclose trading password to branch staff. The branch was required to improve its client management and client revisit policy, enhance its staff management and submit a rectification report. | • Immediately after receiving the regulatory decision, the branch conducted an internal inspection and found that the issues originated from one customer complaint in April 2012, stating that the losses of one account controlled by this customer were due to the operations of a person outside the investment company introduced by the branch (the "**Compliant**"). The branch engaged an examination group to investigated the Compliant and found that there was no irregular operation on the branch's part. However, the branch noticed some non-compliance actions in organizing and managing the investment report meetings, conducting investors educations in relation to investment risks and customer complaint handling.<br><br>• In response to the regulator's decision, the branch has taken the following measures: (1) identifying risk accounts to eliminate potential risks; (2) strengthening investor education in relation to investment risk; (3) improving the follow-up mechanism with respect to client management and the internal communication system; (4) strengthening employee education in relation to compliance and the management of employees' professional conducts.<br><br>• The branch submitted the rectifications report to the Bureau on March 29, 2013. As of the Latest Practicable Date, CISC has not received any objections or follow-up comments on the remedial measures from the Bureau. |

## 7. FINANCIAL INFORMATION

*The following discussion and analysis should be read in conjunction with the consolidated financial information included in "Appendix IV—Accountants' Report of CISC Group" together with the accompanying notes. The consolidated financial information has been prepared in accordance with IFRSs. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis in light of the experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate under the circumstances. However, CISC's actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed here and elsewhere in this circular, particularly in "Risk Factors" and "Forward Looking Statements."*

## OVERVIEW

CISC is a fully-licensed securities firm in the PRC with an extensive and well-established branch network, a large customer base and an integrated business platform. CISC was formed out of the securities-related assets from China Southern Securities Co., Ltd., one of the first PRC securities service providers. Leveraging its proven track record and full securities licences, CISC provides a comprehensive range of securities products and services to serve various needs of corporate, individual, institutional and government clients.

The principal business segments of CISC include (i) brokerage, (ii) investment banking, (iii) asset management, and (iv) proprietary trading. CISC reports its financial results in the following five reporting segments:

- Brokerage: CISC engages in the trading of stocks, funds, bonds and futures on behalf of clients, and also provides investment and financing solutions to high-end, professional and institutional clients, including sale of financial products, margin financing and securities lending and securities-backed lending.

- Investment banking: CISC provides investment banking services, including equity financing, debt and structured financing and financial advisory services as well as NEEQ services.

- Asset management: CISC provides a wide range of asset management products and services, consisting of advisory services, transactional services and product services.

- Proprietary trading: CISC engages in trading of equities, funds, derivatives, bonds, currencies products and other fixed-income products, using CISC's own capital.

- Others: the others segment consists primarily of head office operations, institutional sales and trading, over-the-counter business, private equity, alternative investments and business operated in Hong Kong.

CISC's business experienced rapid growth from 2013 to 2015. Attributable to strong performance of the A-share stock market and more importantly, CISC's prudent business and financial strategy with a long-term perspective, CISC's total revenue and other income increased from RMB3,663.3 million in 2013 to RMB5,149.5 million in 2014, and further increased to RMB12,481.9 million in 2015. Its profit for the year attributable to its owners increased from RMB756.7 million in 2013 to RMB1,243.9 million in 2014, and further increased to RMB3,639.4 million in 2015. Accordingly, CISC achieved higher than industry average ROAE for the three years ended December 31, 2013, 2014 and 2015. The following table sets forth the ROAE of CISC as compared to that of the industry average.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2013** | **2014** | **2015** |
| CISC's ROAE | 9.0% | 13.1% | 30.2% |
| Industry average ROAE (based on data from SAC) | 6.6% | 12.5% | 21.5% |

Largely due to a less favorable condition of the A-share stock market in the first half of 2016 as compared to the same period of 2015, which resulted in a decrease in brokerage trading volume of stocks and funds and a decrease in segment revenue and other income of brokerage of PRC securities companies, CISC's total revenue and other income and profit for the period attributable to its owners decreased to RMB3,474.9 million and RMB783.3 million, respectively, in the first half of 2016 from RMB7,131.6 million and RMB2,453.8 million, respectively, in the same period in 2015. Nevertheless, benefiting from CISC's strict observance of its prudent business and financial strategy, enhanced compliance and risk management practices as well as concerted effort of its management and employees, CISC achieved an ROAE of 10.9% as compared to an industry average of 8.6% for the six months ended June 30, 2016.

**BASIS OF PRESENTATION**

The consolidated financial statements of CISC Group have been prepared in accordance with IFRSs and include applicable disclosure required by the Hong Kong Listing Rules and the Hong Kong Companies Ordinance. CISC prepared its consolidated financial statements on the historical cost basis except for certain financial assets and liabilities that are measured at fair value, as explained in the respective accounting policies set forth in the Accountants' Report in Appendix IV to this circular.

The consolidated financial statements of CISC Group consolidate the financial statements of CISC and its subsidiaries and certain structured entities that CISC controls when assessing whether CISC has control over an entity, only substantive rights which CISC and other parties hold are considered. Control is achieved when CISC is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intra-group balances, transactions, cash flows and any unrealized gains arising from intra-group transactions are eliminated in full in consolidation. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment. Non-controlling interests in subsidiaries are presented separately from equity attributable to owners of CISC.

## FACTORS AFFECTING THE RESULTS OF OPERATIONS OF CISC GROUP

The results of operations, financial condition and prospects of CISC have been affected and, will continue to be affected by a number of factors, including the factors described below.

### Market and Macroeconomic Conditions

As a securities firm based in the PRC, the business and profitability of CISC have been and may continue to be affected by general economic and market conditions. Favourable economic or market conditions include high GDP growth, transparent, liquid and efficient capital markets, low inflation, low unemployment, strong business profitability and high investor confidence. Unfavourable or uncertain economic or market conditions may result from declines in economic growth, business activities or investor confidence, limitations on the availability of credit and capital, increases in inflation or interest rates, exchange rate volatility, outbreaks of hostilities or other geopolitical instability, corporate, political or other incidents or a combination of these or other factors.

The results of operations and financial condition of CISC have been and may continue to be affected by market conditions in many ways. Fluctuations in the equity markets affect the value of the clients' portfolios, their trading and investing activities and investment sentiment, which in turn may affect the amount of brokerage commissions CISC earns from executing buy and sell orders. For example, the A-share stock market in China experienced a surge and attained a historical high level in trading volume from the second half of 2014 to early June 2015. According to statistics published by the Shanghai Stock Exchange and the Shenzhen Stock Exchange, in 2015, the trading volume of the Shanghai Stock Exchange and the Shenzhen Stock Exchange was RMB269,953.7 billion and increased by 242.3% compared with that in 2014. Accordingly, the securities brokerage trading volume of CISC increased from RMB5,406.8 billion in 2014 to RMB13,121.7 billion in 2015. The brokerage commission income of CISC increased from RMB3,072.6 million in 2014 to RMB7,404.7 million in 2015. However, the trading volume of the Shanghai Stock Exchange and the Shenzhen Stock Exchange decreased by 52.9% to 69,150.9 billion in first half of 2016 from 146,789.7 billion in the same period of 2015, largely due to a weak performance of the A-share stock market. The brokerage commission income of CISC decreased to RMB1,515.4 million in the first half of 2016 as compared to RMB4,341.1 million in the same period of 2015. In addition, CISC made an investment in the funds managed by China Securities Finance at a cost of RMB 2,497.1 million in September 2015 in response to the sudden and significant market decline in 2015. See "Risk Factors — Risks Relating to the Business and Industry of CISC — Risks Relating to the Macro-Environment and Industry of CISC —General economic and market conditions could materially and adversely affect its business" for more details.

Changes in financial or economic conditions may also lead to increases or decreases in the number and size of transactions in which CISC provides underwriting, financial and investment advisory and other services, as well as the performances of the assets CISC manages and the value of CISC's own portfolio of financial assets.

### Regulatory Environment

CISC derives its revenue mostly from its operations in the PRC. As a result, its results of operations, financial condition and prospects are affected by regulatory developments in China, as well as the economic measures undertaken by the PRC government.

The PRC securities industry is highly regulated. CISC's ability to expand its business and broaden its scope of product and service offerings has been, and will continue to be, materially affected by changes in the policies, laws and regulations governing the PRC securities industry, including the extent to which it can engage in certain businesses or adopt certain business models and fee structures.

The regulatory regime of the PRC securities industry has been evolving, and the CSRC and other regulatory authorities are committed to reforming the PRC securities industry with a view to improving the PRC capital markets and broadening the scope of new products and services. For example, the CSRC has approved the launch of various new financial products and businesses by PRC securities firms, such as direct investment, stock index futures, margin financing and securities lending, securities-backed lending, the Shanghai-Hong Kong Stock Connect and NEEQ, to expand the products and services that securities firms can offer. In order to encourage innovation in securities industry, the CSRC has also issued various guidelines with an aim to promote product and service innovation. In addition, the PRC regulatory authorities have also taken various measures to improve the capital efficiency and diversify the funding sources of PRC securities firms, including allowing PRC securities firms to issue short-term commercial papers, structured notes, corporate bonds, subordinated bonds and perpetual bonds. Furthermore, in response to the market volatility, the PRC government took regulatory measures to stabilize the market, which have an effect on market liquidity. Adapting to such rapidly changing regulatory environment requires CISC to focus on, anticipate and prepare for future regulatory changes, to develop new products and services when they are allowed, and to optimize the capital structure and funding sources. CISC also needs to maintain various capital adequacy, risk management and liquidity indicator requirements as its products and services become more complex and capital intensive. It is expected that the evolving regulatory reforms and governmental actions are expected to continue to affect the PRC securities industry and the business, financial condition and results of operations of CISC.

**Interest Rate Environment**

The businesses of CISC are affected by changes in interest rates. Interest rates in the PRC are regulated by the PBOC. Since January 2013,the PBOC has adjusted the lending rates a number of times, and the one-year RMB benchmark lending rate decreased from 6.00% at the beginning of 2013 to 4.35% as of the Latest Practicable Date. Changes in interest rates affect the results of operations and financial condition of CISC in different ways:

- Changes in interest rates would affect the amount of interest income CISC would earn on interest-earning assets and the amount of interest expenses CISC needs to pay on interest-bearing liabilities. CISC's interest-earning assets consist primarily of receivables from margin clients relating to its capital-based intermediary businesses, bank deposits and financial assets at fair value through profit or loss. CISC's interest-bearing liabilities primarily include accounts payable to brokerage clients, debt securities issued and REPOs. If the increase in the amount of interest expenses CISC needs to pay is higher than the increase in the amount of interest income it earns, its business and results of operations may be adversely affected.

- The changes in interest rates affect the value of the financial assets and liabilities. An increase in interest rates could cause a decline in the fair value of fixed-income securities CISC invests in and adversely affect its average investment yield.

- A rise in interest rates could affect the ability or willingness of CISC's corporate clients to raise funds from the debt market, which could affect the revenue generated by its debt underwriting business.

**Competition**

The PRC securities industry is highly competitive and CISC faces intense competition across its business lines. CISC principally competes with other full-service PRC securities firms. The principal factors affecting competition include price, the types of products and services offered, transaction execution, experience and knowledge of staff and geographic coverage. Increased competition or an adverse change in the competitive position of CISC could lead to a reduction of market share and therefore a reduction of revenue and profit. Competition can also raise the costs of hiring and retaining the employees CISC needs to effectively operate its business. Meanwhile, the tendency towards mixed business operations in the PRC financial industry may attract new competitors to the securities industry, or allow the current competitors of CISC to expand the scope of their business into new business lines.

**Business Lines and Product Mix**

The business lines and products and services of CISC have different profit margins and future growth prospects and, as a result, any material changes in its product mix, whether due to changes in its growth strategies, market conditions, customer demand and/or other reasons, may affect its financial condition and results of operations. The historical financial results of CISC were significantly affected by the revenue contribution and profit margin of its brokerage business. As CISC seeks to diversify its revenue sources by broadening its product and service offerings, its future results of operations and financial condition could be significantly affected by its ability to design, develop and bring new products to market, to transact business with new clients and counterparties, to manage new asset classes, and to expand in new markets.

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Accountants' Report in Appendix IV to this circular sets forth in Note 3 the significant accounting policies, which are important for an understanding of CISC's financial condition and results of operations.

Certain of CISC's accounting policies involve subjective assumptions, estimates and judgments that are discussed in Note 4 set forth in the Accountants' Report in Appendix IV to this circular. The estimates and associated assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed by the management on an ongoing basis.

## PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### Total Revenue and Other Income

The total revenue and other income consist primarily of fee and commission income, interest income, investment income and other income.

#### *Fee and Commission Income*

The fee and commission income consists primarily of (i) brokerage commission income, which CISC generates on brokerage trading of securities and leasing out trading seats, (ii) underwriting and sponsoring fees for its securities underwriting and sponsoring services in its investment banking business, (iii) asset management fees it receives in accordance with the asset management agreements, (iv) financial advisory fees for providing financial advisory services in its investment banking business, and (v) investment advisory fees for providing investment advisory services to its clients in its brokerage and asset management businesses.

#### *Interest Income*

The interest income is primarily generated from (i) CISC's own deposits and deposits it holds on behalf of its brokerage clients with banks and other financial institutions, (ii) margin financing and securities lending, (iii) financial assets held under resale agreements ("**reverse REPOs**"), and (iv) others.

CISC enters into resale agreements with counterparties (such as its clients as well as banks and other financial institutions), under which it is entitled to receive interest income by purchasing financial assets (such as bonds, notes and stocks) from the counterparty and agreeing to resell such assets back to the counterparty at a predetermined price on the maturity date of the resale agreement.

Other interest income primarily includes interest income from provision of entrusted loan service.

#### *Investment Income*

The investment income of CISC primarily consists of (i) net gains from financial instrument at fair value through profit or loss, (ii) dividend income and interest income from available-for-sale financial assets, (iii) net gains or losses from derivative financial instruments, (iv) net gains or losses from disposal of available-for-sale financial assets, (v) net gains or losses from disposal of subsidiaries and associates, and (vi) net gains from held-to-maturity investments.

The net gains from financial instrument at fair value through profit or loss are primarily generated from the following categories of assets:

(1) financial assets held for trading, which primarily include equity investments, debt securities and funds; and

(2) financial assets designated as at fair value through profit or loss, primarily debt securities.

The net gains or losses from derivative financial instruments, primarily including gains or losses on disposal, and changes in fair value, of stock index futures.

***Other Income***

Other income of CISC consists primarily of (i) tax refunds, (ii) government grants, (iii) rental income, and (iv) others.

Tax refunds primarily represent the fees that local tax authorities pay to CISC for withholding individual income taxes for its employees.

CISC receives government grants, primarily including subsidies in connection with the establishment of new branches and incorporation of subsidiaries, property leasing and relocation and other subsidy for purpose of supporting the business operation of CISC. As the government grants are non-recurring in nature, there is no assurance that CISC will continue to receive them in the future.

Rental income represents the rental income received by CISC for leasing office premises to third parties.

**Total Expenses**

The total expenses of CISC consist of (i) staff costs, (ii) interest expenses, (iii) fee and commission expenses, (iv) other operating expenses, (v) depreciation and amortization expenses, (vi) business tax and surcharges, and (vii) (reversal of)/provision for impairment losses.

***Staff Costs***

The staff costs consist primarily of (i) salaries, bonus and allowances, (ii) retirement scheme contributions, (iii) other social welfare, and (iv) other benefits.

***Interest Expenses***

The interest expenses consist primarily of (i) interest expenses on accounts payable to brokerage clients, (ii) interest expenses on financial assets sold under repurchase agreements ("**REPOs**"), (iii) interest expenses on placements from financial institutions, (iv) interest expenses on commercial papers, corporate bonds, subordinated bonds and beneficiary certificates that CISC issued, and (v) others.

CISC enters into repurchase transactions with counterparties (primarily including banks and other financial institutions), under which CISC incurs interest expenses by selling its financial assets (such as bonds and notes) to the counterparty and agrees to repurchase such assets at a predetermined price on the maturity date of the repurchase agreement.

CISC also raises funds through capital markets by issuing commercial papers, corporate bonds, subordinated bonds and beneficiary certificates, and pays interests on such debt securities.

***Fee and Commission Expenses***

The fee and commission expenses consist of (i) brokerage expenses, which are charged by the stock exchanges and other authorized institutions for using their transaction and settlement systems, (ii) underwriting and sponsoring expenses, consisting primarily of commission CISC pays to other financial institutions for distributing securities CISC underwrites and various expenses related to transaction execution, (iii) investment advisory expenses, mainly including expenses for the purchase of research reports, (iv) financial advisory expenses, mainly including fees paid to third parties relating to execution of transactions, and (v) asset management expenses, mainly including service fees paid to third party management companies for using their asset management platforms.

***Other Operating Expenses***

Other operating expenses consist primarily of (i) operating lease charges in respect of property and equipment, (ii) business development expenses, (iii) traveling and transportation expenses, (iv) professional service fees, (v) utilities and maintenance, (vi) the securities investor protection fund, (vii) auditors' remuneration, and (viii) others.

***Business Tax and Surcharges***

The services provided by CISC and its domestic subsidiaries were subject to the business tax with the applicable tax rate of 5% during the Track Record Period until April 30, 2016, and the urban maintenance and construction tax, education surcharge and local education surcharge were charged at 7%, 3% and 2% of business tax, respectively. Since May 1, 2016, the services provided by CISC and its domestic subsidiaries are subject to the value-added tax with the applicable tax rate of 6%, and the urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of value-added tax, respectively.

***Depreciation and Amortization Expenses***

The depreciation and amortization expenses relate primarily to depreciation of CISC's properties and equipment and amortization of CISC's intangible assets and land use right.

***Provision for/(Reversal of) Impairment Losses***

The provision for/(reversal of) impairment losses includes (i) provision for/(reversal of) impairment losses against accounts receivable and other receivables and (ii) provision for impairment losses against available-for-sale financial assets.

***Income Tax Expense***

During the Track Record Period, CISC and its PRC subsidiaries were subject to an EIT rate of 25% in accordance with the EIT Law. The Hong Kong subsidiaries of CISC were subject to a tax rate of 16.5% on their assessable profit. The effective income tax rate was 26.8%, 26.1%, 25.4% and 25.5% in 2013, 2014, 2015 and for the six months ended June 30, 2016, respectively. As of the Latest Practicable Date and during the Track Record Period, CISC had fulfilled all its tax obligations and did not have any unresolved tax disputes with the relevant tax authorities in China or other jurisdictions.

## RESULTS OF OPERATIONS

The following table sets forth a summary results of operations of CISC for the years and periods indicated.

| | For the Year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| **Revenue** | | | | | |
| Fee and commission income | 2,496.1 | 3,373.0 | 8,205.9 | 4,839.9 | 1,975.7 |
| Interest income | 966.3 | 1,554.1 | 3,778.4 | 1,935.2 | 1,422.6 |
| Investment income | 182.2 | 195.0 | 483.2 | 348.1 | 68.3 |
| **Total revenue** | **3,644.6** | **5,122.1** | **12,467.6** | **7,123.2** | **3,466.6** |
| Other income and gains | 18.7 | 27.4 | 14.3 | 8.3 | 8.4 |
| **Total revenue and other income** | **3,663.3** | **5,149.5** | **12,481.9** | **7,131.6** | **3,474.9** |
| Fee and commission expenses | 335.1 | 518.9 | 1,450.7 | 841.7 | 396.2 |
| Interest expenses | 261.4 | 689.5 | 2,308.1 | 1,157.9 | 879.1 |
| Staff costs | 1,091.8 | 1,239.2 | 2,388.4 | 1,100.3 | 682.2 |
| Depreciation and amortization expenses | 113.0 | 115.3 | 118.4 | 59.3 | 60.8 |
| Business tax and surcharges | 163.2 | 226.8 | 552.9 | 321.5 | 110.2 |
| Other operating expenses | 668.3 | 670.0 | 769.2 | 368.3 | 292.1 |
| (Reversal of)/provision for impairment losses | (8.6) | 1.8 | 9.3 | (0.2) | (0.5) |
| **Total expenses** | **2,624.3** | **3,461.5** | **7,597.1** | **3,848.8** | **2,420.3** |
| Operating profit | 1,039.0 | 1,687.9 | 4,884.8 | 3,282.8 | 1,054.7 |
| Share of (losses)/profits of associates | (1.0) | (1.3) | 0.8 | (0.5) | (1.6) |
| Profit before income tax | 1,038.0 | 1,686.6 | 4,885.6 | 3,282.3 | 1,053.0 |
| Less: Income tax expense | 278.3 | 440.1 | 1,240.2 | 824.3 | 268.1 |
| **Profit for the year/period** | **759.6** | **1,246.5** | **3,645.4** | **2,457.9** | **784.9** |
| Attributable to: | | | | | |
| Owners of CISC | 756.7 | 1,243.9 | 3,639.4 | 2,453.8 | 783.3 |
| Non-controlling interests | 3.0 | 2.6 | 6.0 | 4.2 | 1.6 |

**Total Revenue and Other Income**

The total revenue and other income of CISC increased by 142.4% to RMB12,481.9 million in 2015 from RMB5,149.5 million in 2014, which increased by 40.6% from RMB3,663.3 million in 2013. The total revenue and other income of CISC decreased by 51.3% to RMB3,474.9 million for the six months ended June 30, 2016 from RMB7,131.6 million for the same period of 2015.

***Fee and Commission Income***

The following table sets forth the breakdown of the fee and commission income of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| Brokerage commission income | 2,277.7 | 3,072.6 | 7,404.7 | 4,341.1 | 1,515.4 |
| Underwriting and sponsoring fees | 118.7 | 122.6 | 423.9 | 310.6 | 291.0 |
| Asset management fees | 59.6 | 103.3 | 183.4 | 86.0 | 86.1 |
| Financial advisory fees | 17.9 | 54.6 | 174.7 | 86.9 | 73.3 |
| Investment advisory fees | 22.3 | 19.9 | 19.2 | 15.2 | 9.8 |
| **Total** | **2,496.1** | **3,373.0** | **8,205.9** | **4,839.9** | **1,975.7** |

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The fee and commission income decreased by 59.2% to RMB1,975.7 million for the six months ended June 30, 2016 from RMB4,839.9 million for the same period of 2015, primarily due to a significant decrease in brokerage commission income.

The brokerage commission income decreased by 65.1% to RMB1,515.4 million for the six months ended June 30, 2016 from RMB4,341.1 million for the same period of 2015, primarily due to decreases in securities brokerage trading volume and brokerage commission rate. Largely due to a less favorable condition of the A-share stock market in the first half of 2016 as compared to the same period of 2015, the brokerage trading volume of stocks and funds of CISC decreased by 55.2% to RMB2,736.1 billion in the six months ended June 30, 2016 from RMB6,105.8 billion in the same period in 2015. Its average brokerage commission rate of stocks and funds decreased to 4.9bps in the six months ended June 30, 2016 from 6.6bps in the same period in 2015, largely driven by market competition.

The underwriting and sponsoring fees decreased by 6.3% to RMB291.0 million for the six months ended June 30, 2016 from RMB310.6 million for the same period of 2015, primarily due to decreased underwriting and sponsoring fees from equity offering transactions, reflecting decreases in the number and transaction value of equity financing transactions underwritten by CISC in the first half of 2016, which was in line with the decreases in IPO transactions and weak performance of the A-share stock market, partially offset by the increased underwriting fees from debt offering transactions.

The asset management fees remained largely stable at RMB86.1 million for the six months ended June 30, 2016 and RMB86.0 million for the same period of 2015.

The financial advisory fees decreased by 15.6% to RMB73.3 million for the six months ended June 30, 2016 from RMB86.9 million for the same period of 2015, primarily due to a decrease in the number of transactions on which CISC acted as financial adviser.

*Comparison between 2015 and 2014*

The fee and commission income significantly increased by 143.3% to RMB8,205.9 million in 2015 from RMB3,373.0 million in 2014, primarily due to increases in brokerage commission income, underwriting and sponsoring fees, asset management fees and financial advisory fees.

The brokerage commission income increased by 141.0% to RMB7,404.7 million in 2015 from RMB3,072.6 million in 2014, primarily due to a significant increase in securities brokerage trading volume in 2015 as a result of a surge in trading activities in the A-share stock market. This was partially offset by a decrease in the average securities brokerage commission rate largely driven by market competition. The brokerage trading volume of stocks and funds of CISC increased by 211.3% to RMB11,172.6 billion in 2015 from RMB3,589.4 billion in 2014. The average brokerage commission rate of stocks and funds decreased to 6.1bps in 2015 from 7.7bps in 2014.

The underwriting and sponsoring fees increased by 245.8% to RMB423.9 million in 2015 from RMB122.6 million in 2014, primarily due to increased underwriting and sponsoring fees from equity offering transactions primarily as a result of increases in the number and transaction value of equity financing transactions underwritten by CISC in 2015.

The asset management fees increased by 77.6% to RMB183.4 million in 2015 from RMB103.3 million in 2014, primarily due to an increase in the AUM of CISC's collective and specialized asset management schemes.

The financial advisory fees significantly increased by 219.9% to RMB174.7 million in 2015 from RMB54.6 million in 2014, primarily due to increases in the number and transaction value of transactions on which CISC acted as financial adviser.

*Comparison between 2014 and 2013*

The fee and commission income increased by 35.1% to RMB3,373.0 million in 2014 from RMB2,496.1 million in 2013, primarily due to increases in brokerage commission income, asset management fees and financial advisory fees.

The brokerage commission income increased by 34.9% to RMB3,072.6 million in 2014 from RMB2,277.7 million in 2013, primarily due to an increase in securities brokerage trading volume in the second half of 2014 as a result of increased trading activities in the A-share stock market. This was partially offset by a decrease in the average securities brokerage commission rate driven by market competition. The brokerage trading volume of stocks and funds of CISC increased by 57.0% to RMB3,589.4 billion in 2014 from RMB2,286.4 billion in 2013. The average brokerage commission rate of stocks and funds decreased to 7.7bps in 2014 from 8.7bps in 2013.

The underwriting and sponsoring fees increased by 3.3% to RMB122.6 million in 2014 from RMB118.7 million in 2013, primarily due to increased underwriting fees from debt offering transactions as a result of increases in the number and transaction value of the debt financing transactions underwritten by CISC.

The asset management fees increased by 73.4% to RMB103.3 million in 2014 from RMB59.6 million in 2013, primarily due to an increase in the AUM of CISC's collective and specialized asset management schemes.

The financial advisory fees significantly increased by 205.1% to RMB54.6 million in 2014 from RMB17.9 million in 2013, primarily due to increases in the number and transaction value of transactions on which CISC acted as financial adviser.

***Interest Income***

The following table sets forth the interest income of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| Interest income from financial institutions | 477.9 | 551.2 | 1,246.5 | 520.0 | 507.6 |
| Interest income from margin financing and securities lending | 427.8 | 927.1 | 2,444.0 | 1,354.2 | 781.9 |
| Interest income from reverse REPOs | 44.8 | 66.3 | 85.6 | 59.3 | 128.8 |
| Others | 15.9 | 9.5 | 2.4 | 1.7 | 4.3 |
| **Total interest income on financial assets not at fair value through profit or loss** | **966.3** | **1,554.1** | **3,778.4** | **1,935.2** | **1,422.6** |

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The interest income decreased by 26.5% to RMB1,422.6 million for the six months ended June 30, 2016 from RMB1,935.2 million for the same period of 2015, primarily due to a decrease in interest income from margin financing and securities lending, which was partially offset by an increase in interest income from reverse REPOs.

The interest income from margin financing and securities lending decreased by 42.3% to RMB781.9 million for the six months ended June 30, 2016 from RMB1,354.2 million for the same period of 2015, primarily due to the reduced scale of margin financing and securities lending business in the first half of 2016 as a result of less margin trading activities in less favorable A-share stock market conditions.

The interest income from financial institutions decreased by 2.4% to RMB507.6 million for the six months ended June 30, 2016 from RMB520.0 million for the same period of 2015, primarily due to a decrease in the average balance of cash held on behalf of brokerage clients of CISC.

The interest income from reverse REPOs increased by 117.0% to RMB128.8 million for the six months ended June 30, 2016 from RMB59.3 million for the same period of 2015, primarily due to the increased use of securities backed lending transactions.

*Comparison between 2015 and 2014*

The interest income significantly increased by 143.1% to RMB3,778.4 million in 2015 from RMB1,554.1 million in 2014, primarily due to increases in interest income from margin financing and securities lending and interest income from financial institutions.

The interest income from margin financing and securities lending increased by 163.6% to RMB2,444.0 million in 2015 from RMB927.1 million in 2014, primarily due to a significant increase in demand for capital-based intermediary services attributable to the strong performance of the A-share stock market in the first half of 2015, which leads to a significant increase in the average balance of margin loans and securities lent by CISC.

The interest income from financial institutions increased by 126.1% to RMB1,246.5 million in 2015 from RMB551.2 million in 2014, primarily due to a significant increase in the average balances of cash held on behalf of brokerage clients of CISC.

The interest income from reverse REPOs increased by 29.2% to RMB85.6 million in 2015 from RMB66.3 million in 2014, primarily due to the increases in the securities backed lending transactions with clients.

*Comparison between 2014 and 2013*

The interest income increased by 60.8% to RMB1,554.1 million in 2014 from RMB966.3 million in 2013, primarily due to increases in interest income from margin financing and securities backed lending, interest income from financial institutions and interest income from reverse REPOs.

The interest income from margin financing and securities lending significantly increased by 116.7% to RMB927.1 million in 2014 from RMB427.8 million in 2013, primarily due to a significant increase in demand for capital-based intermediary services in line with the improved A-share stock market in the second half of 2014, which leads to a significant increase in the average balance of margin loans and securities lent by CISC.

The interest income from financial institutions increased by 15.3% to RMB551.2 million in 2014 from RMB477.9 million in 2013, primarily due to an increase in the average balances of cash held on behalf of brokerage clients of CISC.

The interest income from reverse REPOs increased by 48.0% to RMB66.3 million in 2014 from RMB44.8 million in 2013, primarily due to increased resale transactions.

***Investment Income***

The following table sets forth the investment income of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| Net gains/(losses) from disposal of subsidiaries and associates | — | — | 9.5 | —[1] | —[1] |
| Net (losses)/gains from disposal of available-for-sale financial assets | (0.3) | 15.8 | 53.5 | 10.3 | (19.4) |
| Dividend income and interest income from available-for-sale financial assets | 15.2 | 7.2 | 60.1 | 52.9 | 3.2 |
| Net gains from financial instruments at fair value through profit or loss | 134.9 | 202.9 | 268.5 | 279.3 | 83.2 |
| Net gains/(losses) from derivative financial instruments | 12.6 | (44.8) | 85.8 | 2.7 | —[1] |
| Net gains from held-to-maturity investments | 19.9 | 13.9 | 5.9 | 2.8 | 1.2 |
| **Total** | **182.2** | **195.0** | **483.2** | **348.1** | **68.3** |

(1) Not presented as the amount is less than RMB50,000 and thus insignificant.

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The investment income decreased by 80.4% to RMB68.3 million for the six months ended June 30, 2016 from RMB348.1 million for the same period of 2015, primarily reflecting (i) a decrease in the net gains from financial instruments at fair value through profit or loss to RMB83.2 million for the six months ended June 30, 2016 from RMB279.3 million for the same period of 2015, primarily due to a decrease in realised and unrealised gains of securities as a result of the weak performance of securities markets in the PRC, (ii) a decrease in the dividend income and interest income from available-for-sale financial assets to RMB3.2 million for the six months ended June 30, 2016 from RMB52.9 million for the same period of 2015, primarily due to a decrease in return from asset management schemes as a result of the less favourable market conditions, and (iii) a decrease in the net gains from disposal of available-for-sale financial assets where net losses of RMB19.4 million were incurred for the six months ended June 30, 2016 as compared to net gains of RMB10.3 million for the same period of 2015, primarily due to the losses incurred by asset management scheme of CISC attributable to the less favourable market conditions.

*Comparison between 2015 and 2014*

The investment income increased by 147.8% to RMB483.2 million in 2015 from RMB195.0 million in 2014, primarily reflecting (i) an increase in the net gains from financial instruments at fair value through profit or loss to RMB268.5 million in 2015 from RMB202.9 million in 2014, primarily due to an increase in the position of debt and equity securities driven by the favourable market conditions, (ii) an increase in net gains from derivative financial instruments to net gains of RMB85.8 million in 2015 from net losses of RMB44.8 million in 2014, primarily due to gains earned from sales of stock index futures, and (iii) an increase in the dividend income and interest income from available-for-sale financial assets to RMB60.1 million in 2015 from RMB7.2 million in 2014, primarily due to an increase in dividend income from collective asset management schemes invested by CISC.

*Comparison between 2014 and 2013*

The investment income increased by 7.0% to RMB195.0 million in 2014 from RMB182.2 million in 2013, primarily reflecting an increase in the net gains from financial instruments at fair value through profit or loss to RMB202.9 million in 2014 from RMB134.9 million in 2013, primarily due to an increase in the position of debt and equity securities driven by the improved market condition in the second half of 2014. The increase was partially offset by a decrease in net gains from derivative financial instruments where net losses of RMB44.8 million were incurred in 2014 as compared to net gains of RMB12.6 million in 2013, primarily due to losses incurred in connection with CISC's stock index futures hedging transactions. CISC enters into stock index futures hedging transactions when CISC purchases and holds a position of the stocks. As a result, CISC earned net gains from its position of stocks in 2014, which were recorded in the net gain from financial instruments at fair value through profit or loss.

**Total Expenses**

The following table sets forth the breakdown of the total expenses of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| Fee and commission expenses | 335.1 | 518.9 | 1,450.7 | 841.7 | 396.2 |
| Interest expenses | 261.4 | 689.5 | 2,308.1 | 1,157.9 | 879.1 |
| Staff costs | 1,091.8 | 1,239.2 | 2,388.4 | 1,100.3 | 682.2 |
| Depreciation and amortization expenses | 113.0 | 115.3 | 118.4 | 59.3 | 60.8 |
| Business tax and surcharges | 163.2 | 226.8 | 552.9 | 321.5 | 110.2 |
| Other operating expenses | 668.3 | 670.0 | 769.2 | 368.3 | 292.1 |
| (Reversal of)/provision for impairment losses | (8.6) | 1.8 | 9.3 | (0.2) | (0.5) |
| **Total expenses** | **2,624.3** | **3,461.5** | **7,597.1** | **3,848.8** | **2,420.3** |

The total expenses decreased by 37.1% to RMB2,420.3 million for the six months ended June 30, 2016 from RMB3,848.8 million for the same period of 2015. The total expenses increased by 119.5% to RMB7,597.1 million in 2015 from RMB3,461.5 million in 2014, which increased by 31.9% from RMB2,624.3 million in 2013. Staff costs, interest expenses, fee and commission expenses and other operating expenses are the four principal components of the expenses which had important effects on the results of operations of CISC during the three years ended December 31, 2015 and the six months ended June 30, 2016.

***Staff Costs***

The following table sets forth the breakdown of the staff costs of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| Salaries, bonus and allowance | 906.7 | 1,037.4 | 2,149.8 | 988.7 | 562.2 |
| Retirement scheme contributions | 63.3 | 67.0 | 75.3 | 36.2 | 41.4 |
| Other social welfare | 97.4 | 96.2 | 110.3 | 51.8 | 62.8 |
| Other benefits | 24.4 | 38.6 | 53.0 | 23.6 | 15.8 |
| **Total** | **1,091.8** | **1,239.2** | **2,388.4** | **1,100.3** | **682.2** |

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The staff costs decreased by 38.0% to RMB682.2 million for the six months ended June 30, 2016 from RMB1,100.3 million for the same period of 2015, primarily due to a decrease in the staff salaries and bonus that reflected the lower revenue and profit in the first half of 2016.

*Comparison between 2015 and 2014*

The staff costs increased by 92.7% to RMB2,388.4 million in 2015 from RMB1,239.2 million in 2014, primarily due to an increase in the staff salaries and bonus mainly as a result of revenue growth in 2015 in line with the strong performance of the A-share stock market and favorable market conditions.

*Comparison between 2014 and 2013*

The staff costs increased by 13.5% to RMB1,239.2 million in 2014 from RMB1,091.8 million in 2013, primarily due to an increase in the staff salaries and bonuses, reflecting the revenue growth in 2014 in line with the improved A-share stock market conditions, in particular, in the second half of 2014.

***Interest Expenses***

The following table sets forth the breakdown of the interest expenses of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| Interest expenses on accounts payable to brokerage clients | 60.8 | 67.6 | 192.2 | 85.1 | 72.6 |
| Interest expenses on REPOs | 43.0 | 356.4 | 1,319.0 | 688.0 | 438.0 |
| Interest expenses on placements from financial institutions | 124.8 | 181.1 | 136.7 | 80.0 | 4.7 |
| Interest expenses on commercial papers | 6.8 | 53.2 | 24.0 | 21.2 | — |
| Interest expenses on corporate bonds | — | — | 57.6 | — | 64.8 |
| Interest expenses on subordinated bonds | — | — | 261.0 | 110.8 | 148.6 |
| Interest expenses on beneficiary certificates | — | 0.4 | 281.3 | 133.1 | 111.8 |
| Others | 26.0 | 30.9 | 36.4 | 39.8 | 38.7 |
| **Total interest expenses on financial liabilities not at fair value through profit or loss** | **261.4** | **689.5** | **2,308.1** | **1,157.9** | **879.1** |

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The interest expenses decreased by 24.1% to RMB879.1 million for the six months ended June 30, 2016 from RMB1,157.9 million for the same period of 2015, primarily due to decreases in (i) interest expenses on REPOs, (ii) interest expenses on placements from financial institutions, which were partially offset by an increase in interest expenses on debt securities issued by CISC.

Interest expenses on REPOs decreased by 36.3% to RMB438.0 million for the six months ended June 30, 2016 from RMB688.0 million for the same period of 2015, primarily due to the decreased use of repurchase transactions attributable to the weak market performance.

Interest expenses on placements from financial institutions decreased by 94.2% to RMB4.7 million for the six months ended June 30, 2016 from RMB80.0 million for the same period of 2015, primarily due to a decrease in placements from China Securities Finance and other banks.

Interest expenses on debt securities CISC issued increased by 22.7% to RMB325.2 million for the six months ended June 30, 2016 from RMB265.1 million for the same period of 2015, primarily due to an increase in the average balance of corporate bonds and subordinated bonds issued by CISC.

*Comparison between 2015 and 2014*

The interest expenses significantly increased by 234.7% to RMB2,308.1 million in 2015 from RMB689.5 million in 2014, primarily due to increases in (i) interest expenses on REPOs, (ii) interest expenses on debt securities issued by CISC, and (iii) interest expenses of accounts payable to brokerage clients.

Interest expenses on REPOs significantly increased by 270.1% to RMB1,319.0 million in 2015 from RMB356.4 million in 2014, primarily due to an increased use of financing backed by repurchase transactions to serve the funding needs of the capital-intermediary businesses.

Interest expenses on debt securities CISC issued significantly increased by 1,064.0% to RMB623.9 million in 2015 from RMB53.6 million in 2014, primarily due to an increase in the average balance of interest-bearing debt securities, including subordinated bonds, corporate bonds and beneficiary certificates.

Interest expenses of accounts payable to brokerage clients significantly increased by 184.3% to RMB192.2 million in 2015 from RMB67.6 million in 2014, primarily due to a significant increase in average balance of cash held on behalf of brokerage clients attributable to the improved performance of the A-share stock market.

*Comparison between 2014 and 2013*

Interest expenses increased by 163.8% to RMB689.5 million in 2014 from RMB261.4 million in 2013, primarily due to increases in (i) interest expenses on REPOs, (ii) interest expenses on placements from financial institutions, and (iii) interest expenses on debt securities issued.

Interest expenses on REPOs increased by 728.6% to RMB356.4 million in 2014 from RMB43.0 million in 2013, primarily due to the increased use of repurchase transactions.

Interest expenses on debt securities CISC issued increased by 686.9% to RMB53.6 million in 2014 from RMB6.8 million in 2013, primarily due to an increase in the average balance of commercial papers.

Interest expenses on placements from financial institutions increased by 45.1% to RMB181.1 million in 2014 from RMB124.8 million in 2013, primarily due to an increase in the balance of placement from financial institutions.

***Fee and Commission Expenses***

The following table sets forth the breakdown of the fee and commission expenses of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | | | | **(Unaudited)** | |
| | **(in millions of RMB)** | | | | |
| Brokerage expenses[Note] | 303.9 | 484.4 | 1,386.6 | 783.4 | 326.1 |
| Underwriting and sponsoring expenses | 31.2 | 31.6 | 35.5 | 39.2 | 64.9 |
| Investment advisory expenses | — | 2.0 | 0.1 | 0.1 | 1.6 |
| Financial advisory expenses | — | 0.9 | 21.7 | 17.8 | 0.8 |
| Asset management expenses | — | — | 6.8 | 1.2 | 2.9 |
| **Total** | **335.1** | **518.9** | **1,450.7** | **841.7** | **396.2** |

*Note: The brokerage expenses are charged by the stock exchanges and other authorised institution for using their transaction and settlement systems.*

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The fee and commission expenses decreased by 52.9% to RMB396.2 million for the six months ended June 30, 2016 from RMB841.7 million for the same period of 2015, primarily due to a decrease in brokerage expenses, which was partially offset by an increase in underwriting and sponsoring expenses. The decrease in brokerage expenses was primarily as a result of a decrease in brokerage trading volume. The increase in underwriting and sponsoring expenses was primarily due to the increased commission expenses paid to other financial institutions for sub-underwriting debt securities underwritten by CISC.

*Comparison between 2015 and 2014*

The fee and commission expenses significantly increased by 179.6% to RMB1,450.7 million in 2015 from RMB518.9 million in 2014, primarily due to an increase in brokerage expenses in line with an increase in brokerage trading volume in 2015 and an increase in financial advisory expenses primarily due to an increase in fees paid to third parties relating to transaction execution.

*Comparison between 2014 and 2013*

The fee and commission expenses increased by 54.9% to RMB518.9 million in 2014 from RMB335.1 million in 2013, primarily due to an increase in brokerage expenses in line with an increase in brokerage trading volume in the second half of 2014.

***Other Operating Expenses***

The following table sets forth the breakdown of the other operating expenses of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | | | | **(Unaudited)** | |
| | | | **(in millions of RMB)** | | |
| Operating lease charges in respect of property and equipment | 203.8 | 206.9 | 198.8 | 98.4 | 104.2 |
| Business development expenses | 269.4 | 249.4 | 327.9 | 150.8 | 87.6 |
| Travelling and transportation expenses | 33.5 | 34.5 | 36.6 | 15.3 | 15.2 |
| Professional service fees | 20.9 | 26.7 | 41.1 | 19.1 | 15.3 |
| Utilities and maintenance | 85.2 | 95.2 | 97.1 | 45.6 | 51.6 |
| Securities investor protection fund | 18.1 | 22.0 | 47.8 | 28.3 | 11.2 |
| Auditors' remuneration | 1.8 | 3.0 | 1.9 | 0.6 | 0.5 |
| Others | 35.7 | 32.4 | 17.8 | 10.1 | 6.4 |
| **Total** | **668.3** | **670.0** | **769.2** | **368.3** | **292.1** |

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

Other operating expenses decreased by 20.7% to RMB292.1 million for the six months ended June 30, 2016 from RMB368.3 million for the same period of 2015, primarily due to decreases in business development expenses and securities investor protection fund, which was partially offset by an increase in operating lease charges. The decrease in business development expenses was primarily due to reduced cost on conferences and business development activities in line with weak market performance. The decrease in securities investor protection fund was as a result of a decrease in the revenue and other income.

*Comparison between 2015 and 2014*

Other operating expenses increased by 14.8% to RMB769.2 million in 2015 from RMB670.0 million in 2014, primarily due to increases in (i) business development expenses, (ii) professional service fees, and (iii) the securities investor protection fund, driven by the business expansion and increased revenue in 2015 in line with the favorable market conditions.

*Comparison between 2014 and 2013*

Other operating expenses remained stable at RMB670.0 million in 2014 and RMB668.3 million in 2013.

***Profit before Income Tax***

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The profit before income tax decreased by 67.9% to RMB1,053.0 million for the six months ended June 30, 2016 from RMB3,282.3 million for the same period of 2015.

*Comparison between 2015 and 2014*

The profit before income tax increased significantly by 189.7% to RMB4,885.6 million in 2015 from RMB1,686.6 million in 2014.

*Comparison between 2014 and 2013*

The profit before income tax increased by 62.5% to RMB1,686.6 million in 2014 from RMB1,038.0 million in 2013.

***Income Tax Expense***

The following table sets forth the income tax expense of CISC for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | | | | **(Unaudited)** | |
| | **(in millions of RMB, except for percentages)** | | | | |
| Profit before income tax | 1,038.0 | 1,686.6 | 4,885.6 | 3,282.3 | 1,053.0 |
| Income tax expense | 278.3 | 440.1 | 1,240.2 | 824.3 | 268.1 |
| Effective income tax rate | 26.8% | 26.1% | 25.4% | 25.1% | 25.5% |

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The income tax expense decreased by 67.5% to RMB268.1 million for the six months ended June 30, 2016 from RMB824.3 million for the same period of 2015, primarily due to a decrease in the taxable income in the first half of 2016. The effective tax rate was 25.5% for the six months ended June 30, 2016 and 25.1% for the same period of 2015.

*Comparison between 2015 and 2014*

The income tax expense significantly increased by 181.8% to RMB1,240.2 million in 2015 from RMB440.1 million in 2014, primarily due to an increase in taxable income in 2015. The effective tax rate decreased to 25.4% in 2015 from 26.1% in 2014.

*Comparison between 2014 and 2013*

The income tax expense increased by 58.1% to RMB440.1 million in 2014 from RMB278.3 million in 2013, primarily due to an increase in taxable income in 2014. The effective tax rate decreased to 26.1% in 2014 from 26.8% in 2013.

***Profit for the Period and Net Margin***

The following table sets forth the key indicators of the profitability of CISC.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | | | | **(unaudited)** | |
| | **(in millions of RMB, except for percentages)** | | | | |
| **Operating profit** | **1,039.0** | **1,687.9** | **4,884.8** | **3,282.8** | **1,054.7** |
| Operating margin(1) | 28.4% | 32.8% | 39.1% | 46.0% | 30.4% |
| Adjusted operating margin(2) | 33.9% | 42.8% | 56.0% | 64.0% | 47.9% |
| **Profit for the year/period** | **759.6** | **1,246.5** | **3,645.4** | **2,457.9** | **784.9** |
| Net margin(3) | 20.7% | 24.2% | 29.2% | 34.5% | 22.6% |
| Adjusted net margin(4) | 24.8% | 31.6% | 41.8% | 47.9% | 35.7% |
| ROAE(5) | 9.0% | 13.1% | 30.2% | 42.7% | 10.9% |
| Return on average total assets(6) | 2.7% | 2.6% | 4.5% | 5.0% | 1.7% |

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

(2) Adjusted operating margin = (operating profit)/(total revenue and other income - fee and commission expenses - interest expenses). Adjusted operating margin is not a standard indicator under IFRSs but is presented here because PRC securities companies present their operating revenues after deduction of fee and commission expenses and interest

expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRSs. CISC believes that, the adjusted operating margin and adjusted net margin (in note 4 below) provide appropriate indicators of its results of operations that are more comparable to other PRC securities companies due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this circular may not be comparable to other similarly titled indicators reported by other companies due to different calculation methods or assumptions.

(3) Calculated as dividing the profit for the year/period by total revenue and other income.

(4) Adjusted net margin = (profit for the year/period)/(total revenue and other income - fee and commission expenses - interest expenses). Adjusted net margin is not a standard indicator under IFRSs but is presented here for the reasons stated in note 2 above.

(5) Calculated by dividing the profit attributable to owners of CISC by the average balance of total equity attributable to owners of CISC at the end of the previous period and the end of the current period, and annualizing the result.

(6) Calculated by dividing the profit for the year/period by the average balance of total assets at the end of the previous period and the end of the current period, and annualizing the result.

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

The profit for the period decreased by 68.1% to RMB784.9 million for the six months ended June 30, 2016 from RMB2,457.9 million for the same period of 2015. The net margin decreased to 22.6% for the six months ended June 30, 2016 from 34.5% for the same period of 2015. The ROAE decreased to 10.9% for the six months ended June 30, 2016 from 42.7% for the same period of 2015. The return on average total assets decreased to 1.7% for the six months ended June 30, 2016 from 5.0% for the same period of 2015. The decrease was primarily due to a decrease in the total revenue and other income, particularly a significant decrease in the revenue and other income of the brokerage segment, mainly as result of the weak performance of the A-share stock market.

*Comparison between 2015 and 2014*

The profit for the year increased by 192.5% to RMB3,645.4 million in 2015 from RMB1,246.5 million in 2014. The net margin increased to 29.2% in 2015 from 24.2% in 2014. The ROAE increased to 30.2% in 2015 from 13.1% in 2014. The return on average total assets increased to 4.5% in 2015 from 2.6% in 2014. The increase was primarily due to increases in revenue and other income of the brokerage, investment banking and proprietary trading segments.

*Comparison between 2014 and 2013*

The profit for the year increased by 64.1% to RMB1,246.5 million in 2014 from RMB759.6 million in 2013. The net margin increased to 24.2% in 2014 from 20.7% in 2013. The ROAE increased to 13.1% in 2014 from 9.0% in 2013. The increase was primarily due to an increase in revenue and other income of the brokerage and asset management segments attributable to the favorable market conditions in the second half of 2014 and improved profit margins of the brokerage and asset management segments. The return on average total assets remained stable at 2.6% in 2014 as compared to 2.7% in 2013, representing the increase in both the profit for the year and the total assets.

## SUMMARY SEGMENT RESULTS

The following table sets forth CISC's segment revenue and other income, segment expenses and segment profit/(loss) before income tax of each of its segments for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB, except for percentages) | | | | |
| **Brokerage** | | | | | |
| Segment revenue and other income | | | | | |
| Fee and commission income | 2,137.3 | 2,886.4 | 7,045.2 | 4,149.7 | 1,406.3 |
| Interest income | 874.9 | 1,464.4 | 3,569.1 | 1,871.9 | 1,199.1 |
| Investment income | 4.9 | 2.9 | 2.7 | 0.9 | 0.0(2) |
| Other income and gains | 9.2 | 21.8 | 10.9 | 6.6 | 4.8 |
| Segment revenue and other income | 3,026.3 | 4,375.4 | 10,627.9 | 6,029.0 | 2,610.2 |
| Segment expenses | (1,857.4) | (2,538.3) | (5,701.0) | (2,965.1) | (1,669.9) |
| Segment operating profit | 1,168.9 | 1,837.2 | 4,926.9 | 3,063.9 | 940.3 |
| Profit before income tax | 1,168.9 | 1,837.2 | 4,926.9 | 3,063.9 | 940.3 |
| Segment margin(1) | 38.6% | 42.0% | 46.4% | 50.8% | 36.0% |
| **Investment Banking** | | | | | |
| Segment revenue and other income | | | | | |
| Fee and commission income | 138.1 | 170.4 | 580.2 | 393.5 | 359.1 |
| Interest income | 0.0(2) | 0.0(2) | 0.1 | 0.0(2) | 0.0(2) |
| Investment income | — | — | — | — | — |
| Other income and gains | 3.0 | 2.6 | 2.8 | —(2) | 0.5 |
| Segment revenue and other income | 141.1 | 173.0 | 583.1 | 393.5 | 359.6 |
| Segment expenses | (191.9) | (222.8) | (384.2) | (222.8) | (176.6) |
| Segment operating (loss)/profit | (50.8) | (49.8) | 198.8 | 170.7 | 183.0 |
| (Loss)/profit before income tax | (50.8) | (49.8) | 198.8 | 170.7 | 183.0 |
| Segment margin(1) (3) | N/A | N/A | 34.1% | 43.4% | 50.9% |
| **Asset Management** | | | | | |
| Segment revenue and other income | | | | | |
| Fee and commission income | 69.1 | 102.1 | 186.3 | 83.6 | 85.3 |
| Interest income | 2.0 | 1.0 | 0.9 | 0.4 | 83.6 |
| Investment income | 36.5 | 55.6 | 70.3 | 79.0 | (27.9) |
| Other income and gains | — | — | — | — | 0.0(2) |
| Segment revenue and other income | 107.5 | 158.7 | 257.5 | 162.9 | 141.0 |
| Segment expenses | (59.4) | (68.1) | (110.9) | (70.8) | (72.0) |
| Segment operating profit | 48.1 | 90.7 | 146.7 | 92.1 | 69.0 |
| Profit before income tax | 48.1 | 90.7 | 146.7 | 92.1 | 69.0 |
| Segment margin(1) | 44.7% | 57.1% | 57.0% | 56.5% | 48.9% |

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB, except for percentages) | | | | |
| **Proprietary Trading** | | | | | |
| Segment revenue and other income | | | | | |
| Fee and commission income | — | — | — | — | — |
| Interest income | 15.5 | 3.3 | 19.7 | 8.7 | 7.8 |
| Investment income | 96.3 | 80.8 | 232.8 | 94.1 | 45.9 |
| Other income and gains | 0.3 | — | — | — | — |
| Segment revenue and other income | 112.1 | 84.0 | 252.4 | 102.8 | 53.8 |
| Segment expenses | (49.6) | (83.3) | (181.8) | (82.3) | (146.5) |
| Segment operating profit/(loss) | 62.5 | 0.7 | 70.7 | 20.5 | (92.7) |
| Profit/(loss) before income tax | 62.5 | 0.7 | 70.7 | 20.5 | (92.7) |
| Segment margin(1) (3) | 55.7% | 0.9% | 28.0% | 19.9% | N/A |
| **Others**(3) | | | | | |
| Segment revenue and other income | | | | | |
| Fee and commission income | 151.6 | 214.0 | 394.2 | 213.2 | 125.0 |
| Interest income | 74.0 | 85.5 | 188.7 | 54.2 | 132.0 |
| Investment income | 44.5 | 55.7 | 177.4 | 174.2 | 50.2 |
| Other income and gains | 6.1 | 3.0 | 0.7 | 1.8 | 3.1 |
| Segment revenue and other income | 276.2 | 358.2 | 760.9 | 443.4 | 310.3 |
| Segment expenses | (465.9) | (549.0) | (1,219.2) | (507.8) | (355.2) |
| Segment operating loss | (189.7) | (190.8) | (458.3) | (64.4) | (44.9) |
| Loss before income tax | (190.7) | (192.1) | (457.5) | (64.9) | (46.5) |

(1) Segment margin = profit before income tax for each respective segment/segment revenue and other income.

(2) Not presented as the amount is less than RMB50,000 and thus insignificant.

(3) Certain segment margins are not presented because relevant segments incurred loss before income tax during relevant years and periods.

**Brokerage**

Segment revenue and other income from the brokerage segment consist primarily of (i) fee and commission income on brokerage services for clients, primarily including trading of stocks, funds and bonds on behalf of its clients and providing futures brokerage services and products in the PRC, and (ii) interest income on capital-based intermediary services, including margin financing and securities lending. Segment expenses consist primarily of (i) fee and commission expenses, (ii) interest expenses, (iii) staff costs, (iv) depreciation and amortization, (v) business tax and surcharges, and (vi) other operating expenses.

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

Segment revenue and other income of the brokerage segment decreased by 56.7% to RMB2,610.2 million for the six months ended June 30, 2016 from RMB6,029.0 million for the same period of 2015, primarily due to (i) a decreased brokerage trading volume of stocks and funds as a result of the volatile and less favorable A-share stock market conditions in the first half of 2016, (ii) a decrease in the average securities brokerage commission rate, and (iii) a decreased scale of margin financing and securities lending business attributable to clients' reduced demand for capital-based intermediary services.

Segment expenses of the brokerage segment decreased by 43.7% to RMB1,669.9 million for the six months ended June 30, 2016 from RMB2,965.1 million for the same period of 2015, primarily due to decreased in (i) fee and commission expenses in line with the decreased brokerage trading volume of stocks and funds in the first half of 2016, (ii) interest expenses mainly as a result of the reduced average balance of financial assets sold under repurchase agreements and accounts payable to brokerage clients, and (iii) staff costs, which were in line with the decrease in the revenue and other income from this segment.

As a result, the segment operating profit of this segment decreased by 69.3% to RMB940.3 million for the six months ended June 30, 2016 from RMB3,063.9 million for the same period of 2015.

*Comparison between 2015 and 2014*

Segment revenue and other income of the brokerage business segment significantly increased by 142.9% to RMB10,627.9 million in 2015 from RMB4,375.4 million in 2014, primarily due to (i) a significant increase in brokerage trading volume of stocks and funds, and (ii) an increase in the interest income mainly as a result of growth of margin financing and securities lending business in the first half of 2015, both driven by the strong performance of the A-share stock market.

Segment expenses of the brokerage business segment increased by 124.6% to RMB5,701.0 million in 2015 from RMB2,538.3 million in 2014, primarily due to (i) an increase in the brokerage expenses resulting from a significant increase in securities brokerage trading volume, (ii) increased interest expenses as a result of increased borrowings to finance the margin financing and securities lending business in 2015, and (iii) increased staff costs.

As a result, the segment operating profit of this segment increased by 168.2% to RMB4,926.9 million in 2015 from RMB1,837.2 million in 2014.

*Comparison between 2014 and 2013*

Segment revenue and other income of the brokerage business segment increased by 44.6% to RMB4,375.4 million in 2014 from RMB3,026.3 million in 2013, primarily due to (i) a significant increase in the trading volume attributable to the improved A-share stock market in the second half of 2014, and (ii) the expansion of the margin financing and securities lending business.

Segment expenses of the brokerage business segment increased by 36.7% to RMB2,538.3 million in 2014 compared to RMB1,857.4 million in 2013, primarily due to increases in (i) the brokerage expenses resulting from an increase in securities brokerage trading volume, and (ii) interest expenses as a result of increased borrowings to finance margin financing and securities lending business.

As a result, the segment operating profit of this segment increased by 57.2% to RMB1,837.2 million in 2014 from RMB1,168.9 million in 2013.

**Investment Banking**

Segment revenue and other income from the investment banking business consist primarily of fee and commission income, including underwriting and sponsoring fees as well as financial advisory fees. Segment expenses consist primarily of (i) staff costs, (ii) fee and commission expenses associated with the underwriting and financial advisory activities, and (iii) other operating expenses.

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

Segment revenue and other income of the investment banking segment decreased by 8.6% to RMB359.6 million for the six months ended June 30, 2016 compared to RMB393.5 million for the same period of 2015, primarily due to a decrease in the number and transaction value of equity financing transactions underwritten by CISC, partially offset by an increase in the number and transaction value of debt securities underwritten by CISC.

Segment expenses of the investment banking segment decreased by 20.7% to RMB176.6 million for the six months ended June 30, 2016 compared to RMB222.8 million for the same period of 2015, primarily due to decreases in staff costs and other operating expenses in line with the decrease in segment revenue.

As a result, the segment operating profit of this segment increased by 7.2% to RMB183.0 million for the six months ended June 30, 2016 compared to RMB170.7 million for the same period of 2015.

*Comparison between 2015 and 2014*

Segment revenue and other income of the investment banking segment significantly increased by 237.0% to RMB583.1 million in 2015 from RMB173.0 million in 2014, primarily due to a significant increase in the transaction value of equity financing transactions underwritten by CISC and an increase in the total value of transactions on which CISC acted as a financial advisor.

Segment expenses of the investment banking segment increased by 72.4% to RMB384.2 million in 2015 from RMB222.8 million in 2014, primarily due to increases in staff costs and other operating expenses, which were in line with the increase in segment revenue in 2015.

As a result, the segment operating profit of this segment amounted to RMB198.8 million in 2015 as compared to the segment operating loss RMB49.8 million in 2014.

*Comparison between 2014 and 2013*

Segment revenue and other income of the investment banking segment increased by 22.6% to RMB173.0 million in 2014 from RMB141.1 million in 2013, primarily due to an increase in underwriting fees and financial advisory fees largely attributable to an increase in the number and transaction value of equity financing transactions.

Segment expenses of the investment banking segment increased by 16.1% to RMB222.8 million in 2014 from RMB191.9 million in 2013, primarily due to increases in the staff costs and other operating expenses, which were in line with the growth of revenue and other income in 2014.

As a result, the segment operating loss of this segment remained largely stable at RMB49.8 million in 2014, as compared to a segment loss of RMB50.8 million in 2013.

**Asset Management**

Segment revenue and other income from the asset management business consist primarily of (i) fee and commission income from providing securities-firm asset management services, primarily including management of collective, targeted and specialized asset management schemes, and (ii) investment income. Segment expenses consist primarily of (i) fee and commission expenses associated with the asset management activities, (ii) staff costs, (iii) interest expenses, and (iv) other operating expenses.

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

Segment revenue and other income of the asset management segment decreased by 13.4% to RMB141.0 million for the six months ended June 30, 2016 from RMB162.9 million for the same period of 2015, primarily due to losses incurred in connection with a collective asset management scheme of CISC affected by the unfavorable market conditions in the first half of 2016.

Segment expenses of the asset management segment increased by 1.7% to RMB72.0 million for the six months ended June 30, 2016 from RMB70.8 million for the same period of 2015, primarily due to an increase in interest expenses relating to the collective asset management schemes established in December 2015.

As a result, the segment operating profit of this segment decreased by 25.1% to RMB69.0 million for the six months ended June 30, 2016 from RMB92.1 million for the same period of 2015.

*Comparison between 2015 and 2014*

Segment revenue and other income of the asset management segment increased by 62.2% to RMB257.5 million in 2015 from RMB158.7 million in 2014, primarily due to an increase in the AUM attributable to the growth in collective and specialized asset management schemes.

Segment expenses of the asset management segment increased by 62.8% to RMB110.9 million in 2015 from RMB68.1 million in 2014, primarily due to increases in (i) staff salaries and bonus in the asset management business, (ii) interest expenses attributable to investors of consolidated structured entities, and (iii) fee and commission expenses related to asset management business.

As a result, the segment operating profit of this segment increased by 61.8% to RMB146.7 million in 2015 from RMB90.7 million in 2014.

*Comparison between 2014 and 2013*

Segment revenue and other income of the asset management segment increased by 47.6% to RMB158.7 million in 2014 from RMB107.5 million in 2013, primarily due to the AUM growth of collective and specialized asset management schemes in line with the development of CISC's asset management business.

Segment expenses of the asset management segment increased by 14.5% to RMB68.1 million in 2014 from RMB59.4 million in 2013, primarily due to an increase in interest expenses relating to asset management schemes.

As a result, the segment operating profit of this segment increased by 88.6% to RMB90.7 million in 2014 from RMB48.1 million in 2013.

**Proprietary Trading**

Segment revenue and other income from the proprietary trading segment consist primarily of investment income on CISC's proprietary trading and investment activities. Segment expenses consist primarily of (i) interest expenses, (ii) staff costs, and (iii) other operating expenses.

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

Segment revenue and other income of the proprietary trading segment decreased by 47.7% to RMB53.8 million for the six months ended June 30, 2016 from RMB102.8 million for the same period of 2015, primarily due to a decrease in investment income attributable to less favorable A-share stock market conditions and volatile debt securities market.

Segment expenses of the proprietary trading segment increased by 78.1% to RMB146.5 million for the six months ended June 30, 2016 from RMB82.3 million for the same period of 2015, primarily due to an increase in interest expenses as a result of the increased use of repurchase transactions.

As a result, the segment operating loss amounted to RMB92.7 million for the six months ended June 30, 2016 as compared to an operating profit RMB20.5 million for the same period of 2015.

*Comparison between 2015 and 2014*

Segment revenue and other income of the proprietary trading segment significantly increased to RMB252.4 million in 2015 from RMB84.0 million in 2014, primarily due to increases in (i) the investment income attributable to increased fixed-income securities related transactions, and (ii) the interest income attributable to increased use of resale transactions.

Segment expenses of the proprietary trading segment increased by 118.2% to RMB181.8 million in 2015 from RMB83.3 million in 2014, primarily due to increased interest expenses of repurchase financing activities.

As a result, the segment operating profit of this segment increased to RMB70.7 million in 2015 from RMB0.7 million in 2014.

*Comparison between 2014 and 2013*

Segment revenue and other income of the proprietary trading segment decreased by 25.0% to RMB84.0 million in 2014 from RMB112.1 million in 2013, primarily due to a decrease in the investment income associated with stock index futures hedging activities and a decrease in interest income attributable to the decreased use of resale transactions.

Segment expenses of the proprietary trading segment increased by 68.0% to RMB83.3 million in 2014 from RMB49.6 million in 2013, primarily due to an increase in interest expenses as a result of the increased use of repurchase transactions.

As a result, the segment operating profit of this segment decreased by 98.8% to RMB0.7 million in 2014 from RMB62.5 million in 2013.

**Others**

Segment revenue and other income from the others segment consist primarily of revenue and income from institutional sales and trading, OTC market-making, private equity, alternative investment and overseas business. Segment expenses mainly include fees and commissions expense, interest expense, staff cost and other operating expenses.

*Comparison between the Six Months Ended June 30, 2016 and the Six Months Ended June 30, 2015*

Segment revenue and other income of the others segment decreased by 30.0% to RMB310.3 million for the six months ended June 30, 2016 from RMB443.4 million for the same period of 2015, primarily due to a decrease in revenue and income attributable to the weak market conditions.

Segment expenses of the others segment decreased by 30.0% to RMB355.2 million for the six months ended June 30, 2016 from RMB507.8 million for the same period of 2015, primarily due to decreases in staff salaries and bonus and other operating expenses.

As a result, the segment operating loss of this segment decreased by 30.3% to RMB44.9 million for the six months ended June 30, 2016 from RMB64.4 million for the same period of 2015.

*Comparison between 2015 and 2014*

Segment revenue and other income of the others segment increased by 112.4% to RMB760.9 million in 2015 from RMB358.2 million in 2014, primarily due to an increased OTC market-making activities and other transactions attributable to the strong performance of the A-share stock market.

Segment expenses of the others segment increased by 122.1% to RMB1,219.2 million in 2015 from RMB549.0 million in 2014, primarily due to increases in staff salaries and bonus and other operating expenses.

As a result, the segment operating loss of this segment increased by 140.2% to RMB458.3 million in 2015 from RMB190.8 million in 2014.

*Comparison between 2014 and 2013*

Segment revenue and other income of the others segment increased by 29.7% to RMB358.2 million in 2014 from RMB276.2 million in 2013, primarily due to an increased commission income from private equity management and an increase in revenue from overseas business.

Operating expenses of the others segment increased by 17.8% to RMB549.0 million in 2014 from RMB465.9 million in 2013, primarily due to increases in (i) interest expense in line with an increased financing backed by cash flow rights of margin loans, (ii) staff salaries and bonus, and (iii) other operating expenses.

The segment operating loss of this segment remained largely stable at RMB190.8 million in 2014 and RMB189.7 million in 2013.

## LIQUIDITY AND CAPITAL RESOURCES

CISC has in the past funded its working capital and other capital requirements through a diverse range of resources, including cash flows from operating activities, issuances of long-term and short-term debt securities, placements from financial institutions and repurchase transactions. As of June 30, 2016, CISC had aggregate cash and cash equivalents of RMB5,860.9 million.

CISC has established various corporate governance measures to monitor the liquidity risk within CISC Group. The board of directors of CISC is responsible for the overall management of the liquidity and capital resources and is supported by various risk management departments and committees in overseeing the implementation of the corporate governance measures in respect of liquidity risk management. In addition, to manage the liquidity while improving yields on surplus cash, CISC seeks to maintain sufficient reserves of cash and actively manage its liquid assets through money market and capital market operations by investing in liquid financial instruments with relatively low risk, such as fixed-income securities and reverse REPOs. When determining the amount of capital and other resources to be allocated to each business line, CISC mainly takes into account its growth strategy and business focus, the capital requirements and estimated return for each business and applicable regulatory requirements, such as those in relation to capital adequacy, liquidity and risk management.

The following discussion of liquidity and capital resources primarily focuses on the consolidated statements of cash flows and financial position.

**Cash Flows**

The following table sets forth a selected summary of CISC's consolidated statements of cash flows for the years and periods indicated.

| | For the year ended December 31, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | | | (Unaudited) | |
| | (in millions of RMB) | | | | |
| Net cash (used in)/generated from operating activities | (1,575.1) | 1,571.9 | (3,887.0) | (3,272.3) | (1,631.3) |
| Net cash (used in)/generated from investing activities | (774.2) | 129.6 | (2,670.4) | (352.5) | (58.8) |
| Net cash generated from/(used in) financing activities | 949.6 | 927.9 | 10,358.9 | 11,438.8 | (1,186.3) |
| Effect of changes in foreign exchange rate | (2.7) | —[1] | 2.5 | (0.1) | (0.4) |
| Net (decrease)/increase in cash and cash equivalents | (1,402.3) | 2,629.4 | 3,804.0 | 7,813.9 | (2,876.8) |
| Cash and cash equivalents at the beginning of the year/period | 3,706.6 | 2,304.3 | 4,933.7 | 4,933.7 | 8,737.7 |
| Cash and cash equivalents at the end of the year/period | **2,304.3** | **4,933.7** | **8,737.7** | **12,747.6** | **5,860.9** |

(1) Not presented as the amount is less than RMB50,000 and thus insignificant.

***Net Cash (Used in)/Generated from Operating Activities***

The cash flows from operating activities of CISC consist primarily of cash generated from or paid in relation to its brokerage business, investment banking business, asset management business and proprietary trading business. Net cash used in or generated from operating activities reflects (i) profit before income tax adjusted for non-cash and non-operating items, such as interest expenses, depreciation and amortization expenses and fair value gain or loss on financial instruments at fair value through profit or loss, (ii) the effects of movements in working capital, such as increase or decrease in receivable from margin clients, reverse REPOs, financial instruments at fair value through profit or loss, cash held on behalf of brokerage clients, accounts payables to brokerage clients, REPOs and other liabilities, and (iii) other cash items such as income tax paid.

Changes in cash held on behalf of brokerage clients and accounts payables to brokerage clients are reflected in the effects of movements in working capital. Clients' deposits fluctuate based on CISC's clients' trading activities, market conditions and other external factors beyond CISC's control. As a result, analyses for changes in cash held on behalf of brokerage clients and accounts payables to brokerage clients are not meaningful for discussion of cash flows of operating activities.

For the six months ended June 30, 2016, CISC had net cash used in operating activities of RMB1,631.3 million, primarily due to negative cash movements caused by changes in working capital, which were partially offset by its profit before income tax of RMB1,053.0 million. The negative cash movements primarily resulted from (i) a decrease of RMB6,679.7 million in REPOs as a result of the decreased use of repurchase transactions in line with CISC's decreased demand for capital, (ii) an increase of RMB3,916.2 million in reverse REPOs as a result of an increase in securities-backed lending, and (iii) an increase of RMB1,628.0 million in financial instruments at fair value through profit or loss held by CISC. These negative cash movements were partially offset by positive cash movements resulting from (i) a decrease of RMB7,441.4 million in receivable from margin clients attributable to a lower demand for the margin loans service attributable to the less favorable market conditions, and (ii) an increase of RMB3,160.3 million in other liabilities primarily reflecting the increased payable to investors in respect of the asset management schemes established in December 2015.

In 2015, CISC had net cash used in operating activities of RMB3,887.0 million, primarily due to negative cash movements caused by changes in working capital, partially offset by the profit before income tax of RMB4,885.6 million and positive adjustment for non-cash and non-operating items. The negative cash movements primarily resulted from (i) increases of RMB4,056.6 million in financial instruments at fair value through profit or loss held by CISC, (ii) an increase of RMB2,804.4 million in receivable from margin clients as a result of an increased demand for margin loans services, and (iii) a decrease of RMB1,806.8 million in other liabilities primarily as a result of repayment of placements from China Securities Finance.

In 2014, CISC had net cash generated from operating activities of RMB1,571.9 million primarily attributable to its profit before income tax of RMB1,686.6 million, positive adjustment for non-cash and non-operating items and positive cash movements caused by changes in working capital. The positive cash movements were primarily due to an increase of RMB14,927.0 million in REPOs as a result of the increased use of repurchase transactions to supplement CISC's working capital. The positive cash movements was partially offset by the negative cash movements mainly resulting from an increase of RMB15,021.4 million in receivable from margin clients as a result of an increased demand for margin loans service attributable to the improved market conditions.

In 2013, CISC had net cash used in operating activities of RMB1,575.1 million primarily due to negative cash movements caused by changes in working capital, partially offset by the profit before income tax of RMB1,038.0 million and positive adjustment for non-cash and non-operating items. The negative cash movements were primarily due to an increase of RMB5,522.8 million in receivable from margin clients attributable to the growth of the capital-based intermediary business. The negative cash movement was partially offset by the positive cash movement mainly resulting from an increase of RMB2,675.1 million in REPOs as a result of the increased use of repurchase transactions to supplement CISC's working capital.

Despite the negative operating cash flows of CISC in 2013, 2015 and for the six months ended June 30, 2016, it is believed that CISC has strong ability to generate cash flows from operating activities during the Track Record Period and its operating cash flows before movements in working capital amounted to RMB1,179.1 million, RMB1,806.0 million, RMB5,532.8 million and RMB1,469.9 million in 2013, 2014, 2015 and for the six months ended June 30, 2016, respectively. In addition, the net current assets of CISC amounted to RMB6,783.2 million, RMB11,760.1 million, RMB25,248.9 million and RMB18,275.4 million as of December 31, 2013, 2014 and 2015 and June 30, 2016, respectively, which indicated that the working capital needs of CISC had been adequately met during the three years ended December 31, 2013, 2014 and 2015 and six months ended June 30, 2016.

***Net Cash (Used in)/Generated from Investing Activities***

The cash outflows used in investing activities of CISC consist primarily of (i) purchases of available-for-sale investments, (ii) purchases of associates, (iii) purchases of property and equipment, investment property, other non-current assets and other intangible assets, and (iv) purchases of held-to-maturity investment. The cash inflows from investing activities consist primarily of (i) proceeds on disposal of held-to-maturity investments, (ii) proceeds on disposal of available-for-sale investments, and (iii) dividend income and interest income from available-for-sale investments and held-to-maturity investments.

For the six months ended June 30, 2016, the net cash used in investing activities was RMB58.8 million, primarily due to RMB50.3 million paid for purchase of property and equipment, investment property, other non-current assets and other intangible assets.

In 2015, the net cash used in investing activities was RMB2,670.4 million, primarily due to RMB2,527.4 million paid for purchase of available-for-sale investments, consist primarily of stocks.

In 2014, the net cash generated from investing activities was RMB129.6 million, primarily due to RMB357.0 million proceeds received on disposal of held-to-maturity investments, which were partially offset by (i) RMB150.0 million paid for purchases of held-to-maturity investment, and (ii) RMB129.1 million paid for purchases of property and equipment, investment property, other non-current assets and other intangible assets.

In 2013, the net cash used in investing activities was RMB774.2 million, primarily due to (i) RMB651.9 million paid for purchase of property and equipment, investment property, other non-current assets and other intangible assets, and (ii) RMB564.0 million paid for purchase of held-to-maturity investments, which were partially offset by RMB453.8 million proceeds received from disposal of held-to-maturity investments.

***Net Cash Generated from/(Used in) Financing Activities***

The cash outflows resulting from financing activities consist primarily of (i) cash repayments of borrowings and debt securities CISC issued, and (ii) cash paid for interest. The cash inflows from financing activities of CISC consist primarily of (i) proceeds received from issuing of debt securities, (ii) proceeds from borrowings, and (iii) proceeds from capital contribution by non-controlling interests.

For the six months ended June 30, 2016, the net cash used in financing activities was RMB1,186.3 million, primarily due to (i) repayments of borrowings and debt securities CISC issued in the aggregate amount of RMB961.2 million, and (ii) RMB380.5 million paid for interest on outstanding debt securities, partially offset by proceeds from issuing beneficial certificates in the aggregate amount of RMB140.7 million.

In 2015, the net cash generated from financing activities was RMB10,358.9 million, primarily due to (i) proceeds from the issuances of subordinated bonds and corporate bonds in the aggregate amount of RMB8,488.7 million, (ii) proceeds from the issuances of beneficial certificates in the aggregate amount of RMB5,534.6 million, and (iii) proceeds from issuance of short-term commercial papers in the aggregate amount of RMB1,750.0 million, which were partially offset by (i) repayments of borrowings and debt securities issued in the amount of RMB5,596.9 million, and (ii) RMB164.6 million paid for interest on outstanding debt securities.

In 2014, the net cash generated from financing activities was RMB927.9 million, primarily due to proceeds of RMB4,093.1 million from borrowing and issuance of short-term commercial papers in the aggregate amount of RMB3,800.0 million, which were partially offset by repayment of borrowings and debt securities issued in the amount of RMB7,400.0 million.

In 2013, the net cash generated from financing activities was RMB949.6 million, primarily due to proceeds of RMB950.0 million from issuance of short-term commercial papers.

**Assets and Liabilities**

To ensure appropriate cash liquidity management and capital allocation, CISC monitors the scale and composition of its assets and liabilities and seeks to maintain high liquidity. Given the highly liquid nature of the business of CISC, most of its assets and liabilities consist of current assets and liabilities.

*Current Assets and Liabilities*

The following table sets forth a summary of the current assets and liabilities of CISC as of the dates indicated.

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| **Current assets** | | | | |
| Accounts receivable | 149.2 | 367.8 | 196.5 | 252.7 |
| Receivable from margin clients | 7,244.5 | 22,265.9 | 25,070.3 | 17,629.0 |
| Available-for-sale financial assets | 450.2 | 356.0 | 89.0 | 525.4 |
| Financial assets at fair value through profit or loss | 2,217.1 | 2,332.4 | 6,392.0 | 7,989.3 |
| Held-to-maturity investments | 310.4 | 30.5 | — | 70.9 |
| Reverse REPOs | 764.3 | 866.9 | 1,529.9 | 4,920.1 |
| Interest receivable | 185.3 | 246.4 | 653.4 | 937.1 |
| Cash held on behalf of brokerage clients | 15,482.8 | 31,477.4 | 48,184.9 | 40,195.6 |
| Cash and bank balances | 2,609.3 | 5,253.7 | 9,078.4 | 6,201.6 |
| Other current assets | 47.5 | 94.8 | 192.2 | 473.9 |
| **Total current assets** | **29,460.6** | **63,291.8** | **91,386.5** | **79,195.6** |
| **Current liabilities** | | | | |
| Accounts payable to brokerage clients | 15,552.8 | 31,533.1 | 48,378.9 | 40,353.8 |
| Placements from financial institutions | 2,570.0 | 3,063.1 | 523.6 | 303.4 |
| Short-term debt securities issued | 950.0 | 950.0 | — | 85.7 |
| REPOs | 2,675.1 | 14,402.2 | 11,606.6 | 11,766.9 |
| Employee benefits payable | 440.6 | 553.3 | 1,355.9 | 1,103.8 |
| Income tax payable | 75.2 | 250.5 | 445.1 | 117.2 |
| Long-term debt securities issued due within one year | — | — | 2,737.0 | 2,873.6 |
| Other current liabilities | 413.6 | 779.6 | 1,090.3 | 4,315.7 |
| **Total current liabilities** | **22,677.4** | **51,531.7** | **66,137.6** | **60,920.2** |
| **Net current assets** | **6,783.2** | **11,760.1** | **25,248.9** | **18,275.4** |

Current assets consist primarily of (i) cash held on behalf of brokerage clients and its own cash and bank balances, (ii) receivable from margin clients, (iii) financial assets at fair value through profit or loss, and (iv) reverse REPOs. The current liabilities consist primarily of (i) accounts payable to brokerage clients, (ii) REPOs, (iii) long-term debt securities issued due within one year, and (iv) employee benefits payable.

CISC includes cash held on behalf of brokerage clients as current assets and includes accounts payable to brokerage clients as current liabilities. Clients' deposits fluctuate based on clients' trading activities, market conditions and other external factors beyond its control. As a result, clients' deposits in the brokerage business are not a meaningful indicator of the financial condition or results of operations. See "—Adjusted Current Assets and Liabilities" below for information on the assets and liabilities excluding clients' deposits in the brokerage business.

The net current assets remained positive in 2013, 2014, 2015 and the six months ended June 30, 2016.

*Comparison between June 30, 2016 and December 31, 2015*

As of June 30, 2016, the net current assets decreased by 27.6% to RMB18,275.4 million from RMB25,248.9 million as of December 31, 2015, primarily because the decrease in CISC's total current assets was greater than the decrease in CISC's total current liabilities.

Total current assets decreased by 13.3% to RMB79,195.6 million as of June 30, 2016 from RMB91,386.5 million as of December 31, 2015 primarily due to (i) a decrease of RMB7,989.3 million in cash held on behalf of brokerage clients, (ii) a decrease of RMB7,441.4 million in receivable from margin clients as a result of the lower demand for margin loans and securities lending services attributable to the less favorable market conditions, and (iii) a decrease of RMB2,876.8 million in cash and bank balances primarily as a result of repayment of debt securities issued by CISC, which was partially offset by an increase of RMB3,390.2 million in reverse REPOs.

The decrease in the total current liabilities of 7.9% to RMB60,920.2 million as of June 30, 2016 from RMB66,137.6 million as of December 31, 2015 was primarily due to a decrease of RMB8,025.1 million in the accounts payable to brokerage clients, which was partially offset by an increase of RMB3,225.4 million in other current liabilities primarily due to an increase in payables to investors of asset management schemes of CISC.

*Comparison between 2015 and 2014*

As of December 31, 2015, the net current assets increased by 114.7% to RMB25,248.9 million from RMB11,760.1 million as of December 31, 2014.

Total current assets increased by 44.4% to RMB91,386.5 million as of December 31, 2015 from RMB63,291.8 million as of December 31, 2014, primarily due to (i) an increase of RMB16,707.5 million in cash held on behalf of brokerage clients, (ii) an increase of RMB4,059.6 million in financial assets at fair value through profit or loss attributable to an increase in the position of financial assets held by CISC, (iii) an increase of RMB3,824.6 million in cash and bank balances primarily as a result of the issuance of debt securities by CISC in 2015, and (iv) an increase of RMB2,804.4 million in receivable from margin clients attributable to the increased demand for the margin financing and securities lending services in line with the favorable market conditions.

Total current liabilities increased by 28.3% to RMB66,137.6 million as of December 31, 2015 from RMB51,531.7 million as of December 31, 2014. The increase in the current liabilities was primarily due to (i) an increase of RMB16,845.8 million in accounts payable to brokerage clients, (ii) an increase of RMB802.6 million in employee benefits payable as a result of an increase in accrual of bonus during the year, and (iii) an increase of RMB2,737.0 million in long-term debt securities issued due within one year, which was partially offset by (i) a decrease of RMB2,795.5 million in REPOs primarily due to the decreased use of repurchase transactions, and (ii) a decrease of RMB2,539.4 million in placements from financial institutions primarily due to repayment of placements from China Securities Finance.

*Comparison between 2014 and 2013*

As of December 31, 2014, the net current assets increased by 73.4% to RMB11,760.1 million from RMB6,783.2 million as of December 31, 2013.

Total current assets significantly increased by 114.8% to RMB63,291.8 million as of December 31, 2014 from RMB29,460.6 million as of December 31, 2013, primarily due to (i) an increase of RMB15,994.6 million in cash held on behalf of brokerage clients, (ii) an increase of RMB15,021.4 million in receivable from margin clients as a results of the increased demand for margin loans and securities lending services attributable to the favorable market conditions, and (iii) an increase of RMB2,644.4 million in cash and bank balances primarily as a result of increased use of repurchase transactions.

Total current liabilities significantly increased by 127.2% to RMB51,531.7 million as of December 31, 2014 from RMB22,677.4 million as of December 31, 2013, primarily due to (i) an increase of RMB15,980.3 million in accounts payable to brokerage clients, (ii) an increase of RMB11,727.0 million in REPOs as a result of the increased use of repurchase transactions, and (iii) an increase of RMB493.1 million in placements from financial institutions as a result of an increase in placements from banks.

*Adjusted Current Assets and Liabilities*

Client deposits held by CISC fluctuate based on the clients' trading activities, market conditions and other external factors that are beyond CISC's control. CISC has adjusted its assets and liabilities in the following presentation and discussion to exclude the effect of cash held on behalf of clients and accounts payable to brokerage clients. The following table sets forth CISC's adjusted current assets and liabilities as of the dates indicated.

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2016 |
| | (in millions of RMB, except for ratio) | | | | |
| Adjusted current assets[1] | 13,907.8 | 31,758.7 | 43,007.6 | 38,841.8 | 41,149.5 |
| Adjusted current liabilities[2] | 7,124.6 | 19,998.6 | 17,758.7 | 20,566.3 | 24,974.3 |
| Adjusted current ratio[3] | 2.0 | 1.6 | 2.4 | 1.9 | 1.6 |

(1) Represents total current assets less accounts payable to brokerage clients.

(2) Represents total current liabilities less accounts payable to brokerage clients.

(3) Calculated by dividing the adjusted current assets by the adjusted current liabilities.

***Non-current Assets and Liabilities***

The following table sets forth a summary of the non-current assets and liabilities of CISC as of the dates indicated.

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| **Non-current assets** | | | | |
| Property and equipment | 215.1 | 221.7 | 213.4 | 209.5 |
| Intangible assets | 36.3 | 35.7 | 50.7 | 50.7 |
| Interest in associates | 78.5 | 78.4 | 98.1 | 77.9 |
| Goodwill | 20.0 | 20.0 | 20.0 | 20.0 |
| Available-for-sale financial assets | 185.5 | 176.1 | 3,042.6 | 2,992.1 |
| Held-to-maturity investments | — | 72.4 | 72.3 | — |
| Refundable deposits | 616.8 | 658.2 | 298.3 | 163.2 |
| Deferred tax assets | 128.1 | 154.6 | 366.0 | 329.0 |
| Reverse REPOs | 59.2 | 47.5 | 270.4 | 796.4 |
| Other non-current assets | 819.9 | 756.8 | 741.7 | 720.7 |
| **Total non-current assets** | **2,159.2** | **2,221.4** | **5,173.5** | **5,359.6** |

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| **Non-current liabilities** | | | | |
| Long-term debt securities issued | — | 480.0 | 9,277.4 | 8,492.1 |
| REPOs | — | 3,200.0 | 6,840.0 | — |
| Employee benefits payable | 38.3 | 76.0 | 134.1 | 65.6 |
| Deferred tax liabilities | 0.6 | 19.9 | 104.4 | 86.2 |
| Other non-current liabilities | — | — | — | 167.2 |
| **Total non-current liabilities** | **38.9** | **3,775.9** | **16,355.9** | **8,811.1** |

The non-current assets primarily consist of (i) available-for-sale financial assets, (ii) refundable deposits, (iii) deferred tax assets, (iv) reverse REPOs, and (v) property and equipment. The available-for-sale financial assets consist primarily of investments in equity securities and bond securities as well as asset management schemes. The refundable deposits consist primarily of the amount CISC is required to deposit with various exchanges and clearing houses as collateral for trading. The deferred tax assets consist primarily of deferred tax arising from staff cost. The reverse REPOs refer to balance for CISC's securities-backed lending and stock repurchase with a term over one year. The property and equipment consist primarily of the office equipment, furniture and fixtures and leasehold improvements. The non-current liabilities consist primarily of (i) long-term debt securities issued, (ii) non-current employee benefits payable, (iii) REPOs, and (iv) deferred tax liabilities.

*Comparison between June 30, 2016 and December 31, 2015*

The non-current assets increased by 3.6% to RMB5,359.6 million as of June 30, 2016 from RMB5,173.5 million as of December 31, 2015, primarily due to an increase in reverse REPOs as a result of the increased use of securities-backed lending. The increase was partially offset by a decrease in refundable deposits primarily due to the decrease in refundable deposits as collateral as a result of the decreased trading volume.

The non-current liabilities decreased by 46.1% to RMB8,811.1 million as of June 30, 2016 from RMB16,355.9 million as of December 31, 2015, primarily due to (i) a decrease in REPOs of RMB6,840.0 million mainly due to reclassification of financing backed by cash flow rights of margin loans with maturity date less than one year from non-current liabilities into current liabilities, and (ii) a decrease in long-term debt securities of RMB785.3 million as a result of reclassification of beneficiary certificates with maturity date less than one year from non-current liabilities into current liabilities.

*Comparison between 2015 and 2014*

The non-current assets increased by 132.9% to RMB5,173.5 million as of December 31, 2015 from RMB2,221.4 million as of December 31, 2014, primarily due to (i) an increase in available-for-sale financial assets of RMB2,866.5 million primarily reflecting the investment made by CISC in the funds managed by China Securities Finance in September 2015, and (ii) an increase in balance of reverse REPOs of RMB222.9 million as a result of the increased use of securities backed lending, which were partially offset by a decrease in refundable deposits of RMB359.9 million. The decrease in refundable deposits as collateral was attributable to the decreased use of margin and securities refinancing. See Note 26 set forth in the Accountants' Report in Appendix IV to this circular for more details of the investment of CISC in the funds managed by China Finance Securities.

The non-current liabilities increased by 333.2% to RMB16,355.9 million as of December 31, 2015 from RMB3,775.9 million as of December 31, 2014, primarily due to (i) an increase in REPOs of RMB3,640.0 million as a result of the increased use of financing backed by repurchase transactions, and (ii) an increase in long-term debt securities of RMB8,797.4 million as a result of the issuance of corporate bonds and subordinated bonds in 2015.

*Comparison between 2014 and 2013*

The non-current assets increased by 2.9% to RMB2,221.4 million as of December 31, 2014 from RMB2,159.2 million as of December 31, 2013, primarily due to an increase of RMB72.4 million in held-to-maturity investments held by CISC as a result of an increase in debt securities held by CISC.

The non-current liabilities increased by 9,611.3% to RMB3,775.9 million as of December 31, 2014 from RMB38.9 million as of December 31, 2013, due to (i) an increase in REPOs of RMB3,200.0 million as a result of the increased use of repurchase transactions, and (ii) an increase in long-term debt securities issued of RMB480.0 million as a result of issuance of long-term beneficiary certificates in December 2014.

## INDEBTEDNESS

As of October 31, 2016, the latest practicable date for determining the indebtedness, CISC had placements from financial institutions of RMB309.7 million, short-term debt securities of RMB349.6 million and long-term debt securities of RMB10,025.9 million.

The following table sets forth a breakdown of the indebtedness of CISC by type as of the dates indicated.

| | As of December 31, | | | As of June 30, | As of October 31, |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2016 |
| | | | | | (unaudited) |
| | (in millions of RMB) | | | | |
| **Placements from financial institutions** | | | | | |
| Placements from China Securities Finance | 2,570.0 | 2,570.0 | — | — | — |
| Placements from banks | — | 493.1 | 523.6 | 303.4 | 309.7 |
| **Short-term Debt Securities Issued** | | | | | |
| Short-term commercial papers | 950.0 | 950.0 | — | — | — |
| Beneficiary certificates | — | — | — | 85.7 | 349.6 |
| **Long-term Debt Securities Issued** | | | | | |
| Beneficiary certificates | — | 480.0 | 3,524.1 | 2,873.6 | 1,532.6 |
| Corporate bonds | — | — | 3,490.3 | 3,492.1 | 3,493.3 |
| Subordinated bonds | — | — | 5,000.0 | 5,000.0 | 5,000.0 |
| **Total** | **3,520.0** | **4,493.1** | **12,538.0** | **11,754.8** | **10,685.2** |

Other than the placements from banks, which were obtained by CIS HK and were guaranteed by CISC, none of the other indebtedness of CISC was secured or guaranteed.

**Placements from Financial Institutions**

***Placements from China Securities Finance***

To support the development of its business operation, CISC obtains financing from China Securities Finance. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the balance of the borrowings from China Securities Finance by CISC was RMB2,570.0 million, RMB2,570.0 million, nil and nil, respectively. As of October 31, 2016, CISC did not have any borrowings from China Securities Finance.

***Placements from banks***

In addition to the placements from China Securities Finance, CISC obtains loan facilities from banks to replenish its liquidity. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the balance of the borrowings from banks was nil, RMB493.1 million, RMB523,6 million and RMB303.4 million, respectively. As of October 31, 2016, the placements from banks were RMB309.7 million, which were obtained by CIS HK and had interest rates of 3 Months HIBOR plus 2.1% per year.

***Banking Facilities***

As of October 31, 2016, CISC had unutilized banking facilities of HK$350.0 million. All of such unutilized banking facilities were granted to CIS HK.

Among the banking facilities, the loan facility with a commitment amount of HK$200.0 million includes the following key undertakings:

- CIS HK shall furnish upon demand cash cover or other security or further security as may be required by the lender and shall register or procure the registration of the relevant security with the appropriate authorities if required by the lender; and

- During the continuation of such loan facility, (i) CIS HK shall remain as a direct or indirect wholly-owned subsidiary of CISC; (ii) CIS HK shall provide to the lender its audited consolidated financial statements for that financial year within 180 days after the end of each respective financial year; (iii) CIS HK shall provide to the lender its unaudited consolidated financial statements for that financial half year within 120 days after the end of each respective financial half year; and (iv) CIS HK shall provide to the lender any other information as reasonably requested.

**Short-term Debt Securities Issued**

***Short-term commercial papers***

Subject to the PBOC's approval, CISC can issue short-term commercial papers in the national interbank bond market. CISC used the net proceeds of short-term commercial papers to primarily finance its working capital. During the Track Record Period and up to June 30, 2016, CISC completed 6 issuances of short-term commercial papers in an aggregate principal amount of RMB6,500.0 million on the PRC inter-bank market. As of October 31, 2016, CISC did not have any commercial papers outstanding.

*Short-term beneficiary certificates*

CISC started to issue short-term beneficiary certificates from January 2015. In 2015 and up to June 30, 2016, CISC completed 28 issuances of short-term beneficiary certificates in an aggregate principal amount of RMB2,770.8 million with a maturity period of less than one year. As of June 30, 2016, 9 issuances of beneficiary certificates were outstanding which were unsecured and bearing fixed interest rates or interest rates linked to certain stock indexes. As of October 31, 2016, CISC had 15 issuances of short-term beneficiary certificates outstanding, with an aggregate principal amount of RMB349.6 million. The following table sets forth the range of interest rates of short-term beneficiary certificates outstanding as of the dates indicated:

| | As of June 30, 2016 | As of October 31, 2016 |
|---|---|---|
| Short-term beneficiary certificates .................... | 3% plus floating interest rate - 5.5% | 3% plus floating interest rate - 6.5% |

**Long-term Debt Securities Issued**

*Long-term beneficiary certificates*

CISC started to issue long-term beneficiary certificates from December 2014. In 2014 and up to June 30, 2016, CISC completed 27 issuances of long-term beneficiary certificates in an aggregate principal amount of RMB3,384.5 million with a maturity period of over one year. As of June 30, 2016, 21 issuances of long-term beneficiary certificates were outstanding which were unsecured and bearing fixed interest rates. As of October 31, 2016, CISC had 4 issuances of long-term beneficiary certificates outstanding, with an aggregate principal amount of RMB1,450.0 million. The following table sets forth the range of interest rates of long-term beneficiary certificates outstanding as of the dates indicated:

| | As of June 30, 2016 | As of October 31, 2016 |
|---|---|---|
| Long-term beneficiary certificates .................... | 6.45%-7.4% | 3.44%-6.45% |

*Corporate bonds*

On July 24, 2015, CISC issued corporate bonds in an aggregate principal amount of RMB3,500.0 million with a maturity date of July 23, 2018, carrying interest at a rate of 3.62% per annum. The corporate bonds are listed on the Shanghai Stock Exchange.

*Subordinated bonds*

CISC issued subordinated bonds with a principal amount of RMB 2 billion on January 26, 2015 with a maturity date of January 26, 2019, carrying interest at a rate of 6.2% for the first two years and 9.2% from the third year to the fourth year. Interests of the subordinated bonds are payable annually. CISC has an option to redeem the bonds on January 26, 2017.

CISC issued subordinated bonds with a principal amount of RMB 3 billion on March 2, 2015 with a maturity date of March 2, 2019, carrying interest at a rate of 5.8% for the first two years and 8.8% from the third year to the fourth year. Interests of the subordinated bonds are payable annually. CISC has an option to redeem the bonds on March 2, 2017.

## CAPITAL EXPENDITURES

The capital expenditures consist primarily of expenditures for the purchase of office equipment, intangible assets and other non-current assets. The capital expenditures of CISC amounted to RMB651.9 million, RMB129.1 million, RMB123.3 million and RMB50.3 million in 2013, 2014 and 2015 and the six months ended June 30, 2016, respectively.

As of June 30, 2016, the capital expenditures of CISC in 2016 is expected to be RMB128.5 million, which will be used to purchase electronic equipment and software required for business operation. CISC intends to fund its capital expenditures with cash generated from the operating activities.

## COMMITMENTS AND CONTINGENT LIABILITIES

### Capital Commitments

The following table sets forth the capital commitments of CISC as of the dates indicated.

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| Contracted, but not provided for ............. | 10.0 | 30.0 | 66.5 | 66.5 |

The capital commitments were made primarily to make capital contribution to private equity funds and for constructing buildings, and as CISC grows, it expects to continue to incur additional capital commitments to support its business expansion.

**Operating Lease Commitments**

CISC leases certain of its office property from third parties under non-cancellable operating leases. The following table sets forth its future minimum lease payments payable under non-cancellable operating leases as of the dates indicated.

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| Within 1 year (inclusive) | 121.7 | 110.7 | 110.9 | 144.2 |
| 1 - 2 years (inclusive) | 86.5 | 76.6 | 122.6 | 140.9 |
| 2 - 3 years (inclusive) | 53.0 | 89.5 | 99.5 | 113.4 |
| More than 3 years | 148.4 | 157.5 | 108.3 | 100.4 |
| **Total** | **409.5** | **434.3** | **441.4** | **498.9** |

**Contingent Liabilities**

Except as disclosed in this circular, as of September 30, 2016, there was no material legal, arbitration or administrative proceedings that, if adversely determined CISC expected would materially and adversely affect its financial position and results of operations.

## OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2016, CISC did not have any outstanding off-balance sheet guarantees.

## RELATED PARTY TRANSACTIONS

CISC enters into transactions with its related parties from time to time. It is the view of the directors of CISC that each of the related party transactions set out in Note 53 of its historical financial information in the Accountants' Report in Appendix IV to this circular were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. The directors of CISC are also of the view that the related party transactions during the Track Record Period would not distort its track record results or make its historical results not reflective of its future performance.

## CAPITAL ADEQUACY AND RISK CONTROL INDICATORS

Pursuant to the CSRC's *Administrative Measures for Risk Control Indicators of Securities Companies*, or the Risk Control Indicators Measures, CISC needs to comply with statutory Net Capital requirements and other regulatory standards for capital adequacy. CISC's capital management objective is to meet legal and regulatory requirements while maintaining adequate capital and maximizing returns. CISC conducts forecast, planning and management of its regulatory capital. It has set up dynamic alarm mechanism on the Net Capital, the liquidity coverage ratio and the net stable funding ratio to monitor and analyze various capital resources and risk control indicators.

The Net Capital and key regulatory risk indicators of CISC prepared in accordance with the PRC GAAP as of the date indicated are as follows.

| | As of December 31, | | | As of June 30, | Warning level(1)(2) | Minimum/ Maximum level(2) |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | | |
| Net Capital(3) (in millions of RMB) | 5,881.6 | 6,425.4 | 14,004.4 | 13,438.2 | — | — |
| Net Capital/total risk capital reserves(4) | 741.1% | 530.3% | 863.5% | 723.1% | ≥120.0% | ≥100.0% |
| Net Capital/net assets | 67.1% | 64.1% | 102.9% | 93.5% | ≥48.0% | ≥40.0% |
| Net Capital/liabilities(5) | 85.2% | 28.1% | 42.0% | 53.1% | ≥9.6% | ≥8.0% |
| Net assets/liabilities(5) | 126.9% | 43.8% | 40.8% | 56.8% | ≥24.0% | ≥20.0% |
| Value of equity securities and derivatives held/Net Capital | 8.8% | 3.7% | 21.5% | 24.8% | ≤80.0% | ≤100.0% |
| Value of fixed-income securities held/Net Capital | 29.6% | 28.0% | 39.2% | 52.9% | ≤400.0% | ≤500.0% |

(1) The warning level is set by the CSRC according to the Risk Control Indicator Measures. If an indicator is required to stay above a minimum level, the warning level is 120% of the minimum requirement, and if an indicator is required to stay below a maximum level, the warning level is 80% of the maximum requirement.

(2) According to the *Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies*, since October 1, 2016, the warning level for the Net Capital/net assets ratio and Net Capital/liabilities are 24% and 12%, respectively, and the minimum level for the two ratios are 20% and 10%, respectively. The warning level and minimum/maximum level of other ratios remain unchanged.

(3) Net Capital equals net assets minus risk adjustments of financial assets, other assets and contingent liabilities as well as other adjustments determined or authorized by the CSRC.

(4) Risk capital reserves are reserves required by the CSRC to cover losses that securities firms may incur in their ordinary course of business. Such reserves are calculated based on the scale of business, the number of securities branches and the previous year's operating expenses, etc.

(5) For purpose of calculating the risk control indicators, the accounts payable to brokerage clients are deducted from the total liabilities.

In addition, CISC is required to comply with certain risk indicator requirements to engage in various businesses, such as margin financing and securities lending, proprietary trading, asset management, direct investment and futures brokerage. As of December 31, 2013, 2014 and 2015 and June 30, 2016 as well as the Latest Practicable Date, CISC was in compliance with all of the CSRC's capital adequacy and risk control indicator requirements.

## QUANTITATIVE AND QUALITATIVE ANALYSIS OF FINANCIAL RISK

CISC monitors and controls key exposures to risks relating to its use of financial instruments, including credit risk, liquidity risk, market risk and operational risk.

In order to monitor and manage the level of its risk exposure, CISC has established risk management policies to identify and analyze the risks faced by it, set up acceptable risk limits and designed relevant internal control policies and procedures. The risk management policies and relevant internal control procedures of CISC are reviewed periodically and on an ad hoc basis to reflect changes in market conditions and its activities. The departments responsible for risk management of CISC conduct independent assessment on the implementation of risk management policies in business units. The audit department of CISC undertakes both regular and ad hoc reviews on the effectiveness of the implementation of internal control over the risk management policies.

The risk management committee of CISC monitors and controls its risk exposure at the operational level. CISC also has a risk management department that includes credit risk management division, market risk management division and operational risk management division. The main responsibilities of the risk management department are to identify risks, to inspect, monitor, evaluate and report the implementation of risk policies in each business unit so that its risk exposure as a whole does not exceed the risk preferences set by the senior management, to formulate or assist to formulate relevant risk management measures and set up risk limits, and to regularly report to the risk management committee and the senior management. See "Business — Risk Management" and Note 56 in the Accountants' Report in Appendix IV to this circular for an overview of its risk management process.

### Credit Risk

Credit risk represents the potential loss that may arise from the failure of counterparties, clients, intermediary institutions, bond issuers or other business associates to meet their contracted obligation to the CISC Group.

Currently, CISC Group's to credit risk arises from:

- direct credit risk from debt borrowers (including borrowers in margin financing and securities lending business) or bond issuers' default or bankruptcy, including the loss due to intermediary institutions such as brokers or a custodian banks. The risk exposure is the total value of the debt outstanding;
- counterparty credit risk from counterparty's default on the over-the-counter derivative transactions, such as swap or forward. The risk exposure is determined by the change in the market prices of the derivatives; and
- settlement risk from a business associate's failure in delivery of fund or securities when CISC has fulfilled its delivery obligation.

To mitigate direct credit risk, the CISC Group has set up investment criteria and limits based on bonds variety, credit ratings and issuers. For margin financing and securities lending and reverse REPOs, the CISC Group undertakes various means to mitigate the direct credit risk, including holding collaterals from clients, reviewing and setting client trading limits, managing the underlying securities and collaterals and their conversion ratios, real-time and day-end monitoring, executing margin calls and forced liquidations, and undertaking recourse actions.

The following table sets forth the maximum exposure to credit risk of the CISC Group without taking into account any collateral and other credit enhancements.

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| Refundable deposits | 616.8 | 658.2 | 298.3 | 163.2 |
| Financial assets at fair value through profit or loss | 2,081.1 | 2,255.0 | 5,916.5 | 7,242.8 |
| Derivative financial assets | — | — | — | — |
| Reverse REPOs | 823.4 | 914.4 | 1,800.3 | 5,716.5 |
| Receivable from margin clients | 7,244.5 | 22,265.9 | 25,070.3 | 17,629.0 |
| Cash held on behalf of brokerage clients | 15,482.8 | 31,477.4 | 48,184.9 | 40,195.6 |
| Bank balances | 2,608.7 | 5,253.3 | 9,077.9 | 6,200.5 |
| Accounts receivable | 149.2 | 367.8 | 196.5 | 252.7 |
| Held-to-maturity investments | 310.4 | 102.9 | 72.3 | 70.9 |
| Available-for-sale financial assets | 182.8 | 201.8 | — | 296.7 |
| Interest receivable | 185.3 | 246.4 | 653.4 | 937.1 |
| Others | 108.9 | 119.8 | 195.9 | 213.2 |
| **Total maximum credit risk exposure** | **29,793.9** | **63,862.9** | **91,466.2** | **78,918.2** |

The following table sets forth the maximum credit risk exposure without taking into account of any collateral and other credit enhancements, as categorized by geographic area.

| | As of December 31, | | | As of June 30, |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| Mainland China | 29,590.3 | 62,434.9 | 89,798.8 | 77,398.0 |
| Outside Mainland China | 203.6 | 1,428.0 | 1,667.4 | 1,520.2 |
| **Total maximum credit risk exposure** | **29,793.9** | **63,862.9** | **91,466.2** | **78,918.2** |

**Liquidity Risk**

Liquidity risk arises when the CISC Group, despite being solvent at the time, cannot obtain sufficient funding in a timely manner or at a reasonable cost to finance the expansion of the assets or to pay off its obligation when it falls due.

The CISC Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables set forth the undiscounted contractual cash flows of the CISC Group's non-derivative and derivative financial liabilities, including (i) interest payments computed using contractual rates or (ii) interest payments based on prevailing interest rates at the end of the reporting period, in terms of the remaining contractual maturities calculated based on the earliest date CISC may be required to pay at the end of the reporting period.

| | As of June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 - 5 years (inclusive) | More than 5 years | Undated | Total |
| | (in millions of RMB) | | | | | |
| Accounts payable to brokerage clients | 40,353.8 | — | — | — | — | 40,353.8 |
| REPOs | — | 12,014.3 | — | — | — | 12,014.3 |
| Short-term debt securities issued | — | 86.3 | — | — | — | 86.3 |
| Long-term debt securities issued | — | 3,185.8 | 9,129.4 | — | — | 12,315.3 |
| Others | 159.2 | 84.3 | 316.3 | — | — | 559.8 |
| **Total** | **40,513.0** | **15,370.7** | **9,445.8** | **—** | **—** | **65,329.5** |

| | As at December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 - 5 years (inclusive) | More than 5 years | Undated | Total |
| | (in millions of RMB) | | | | | |
| Accounts payable to brokerage clients | 48,378.9 | — | — | — | — | 48,378.9 |
| Placements from financial institutions | — | 229.2 | 315.8 | — | — | 545.0 |
| REPOs | — | 11,783.4 | 7,273.6 | — | — | 19,057.0 |
| Long-term debt securities issued | — | 2,838.2 | 10,592.3 | — | — | 13,430.5 |
| Others | 223.3 | 75.8 | — | — | — | 299.1 |
| **Total** | **48,602.2** | **14,926.6** | **18,181.7** | **—** | **—** | **81,710.5** |

| | As of December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 - 5 years (inclusive) | More than 5 years | Undated | Total |
| | (in millions of RMB) | | | | | |
| Accounts payable to brokerage clients | 31,533.1 | — | — | — | — | 31,533.1 |
| Placements from financial institutions | — | 3,171.3 | — | — | — | 3,171.3 |
| REPOs | — | 14,892.7 | 3,506.3 | — | — | 18,399.0 |
| Short-term debt securities issued | — | 952.2 | — | — | — | 952.2 |
| Long-term debt securities issued | — | — | 529.3 | — | — | 529.3 |
| Others | 183.0 | 247.9 | 0.3 | — | — | 431.2 |
| **Total** | **31,716.0** | **19,264.1** | **4,035.9** | **—** | **—** | **55,016.0** |

| | As of December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue/ repayable on demand | Within 1 year (inclusive) | 1 - 5 years (inclusive) | More than 5 years | Undated | Total |
| | (in millions of RMB) | | | | | |
| Accounts payable to brokerage clients | 15,552.8 | — | — | — | — | 15,552.8 |
| Placements from financial institutions | — | 2,626.3 | — | — | — | 2,626.3 |
| REPOs | — | 3,268.0 | — | — | — | 3,268.0 |
| Short-term debt securities issued | — | 958.2 | — | — | — | 958.2 |
| Others | 33.4 | 2.6 | — | — | — | 36.0 |
| **Total** | **15,586.3** | **6,855.2** | **—** | **—** | **—** | **22,441.4** |

**Market Risk**

Market risk is the risk of loss in CISC's income and value of financial instruments held arising from adverse market movements such as changes in interest rates, stock prices and foreign exchange rates. The objective of market risk management is to monitor and control market risk within the acceptable range and to maximize the risk adjusted return. Stress testing is conducted regularly, and the potential movements of risk and operating indicators in a variety of scenarios are calculated.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

For those financial instruments held by the CISC Group which expose the CISC Group to interest rate risk at the end of each of the Relevant Periods, the CISC Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the CISC Group's net profit and equity.

Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

| | Sensitivity of net profit and equity | | | |
|---|---|---|---|---|
| | As of December 31, | | | As of June 30, |
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| Change in basis points | | | | |
| Increase by 50 basis points | 8.0 | 11.0 | (18.3) | (43.3) |
| Decrease by 50 basis points or decrease to 0 | (7.9) | (10.9) | 19.0 | 45.1 |

The sensitivity analysis is based on the static rate risk profile of the CISC Group' assets and liabilities. The sensitivity analysis measures the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the CISC Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions that:

- The 50 basis points of changes in interest rates at the end of the Relevant Periods apply to all of the CISC Group's debt financial instruments in the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rate;
- There are no changes to the assets and liabilities portfolios;
- Other variables (including exchange rate) remain unchanged; and
- Risk management measures undertaken by the CISC Group are not considered.

Due to the above assumptions, the actual changes of interest rate and the impact to the CISC Group's net profit and equity might vary from the estimated results of the sensitivity analysis.

***Currency risk***

Currency risk is the risk arising from fluctuations of foreign exchange rates. The CISC Group adopts sensitivity analysis to measure currency risk.

Assuming a 10% weakening of the RMB against the USD, the HKD and other currencies at the end of each of the Relevant Periods which would apply to the next 12 months with all other variables unchanged and all risk management measures undertaken by the CISC Group set aside, the CISC Group's net profit or loss and equity would have been affected as follows.

| | Sensitivity of net profit | | | |
|---|---|---|---|---|
| | As of December 31, | | | As of June 30, |
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| **Currency Changes** | | | | |
| USD 10% | 2.1 | 1.9 | 2.9 | 3.1 |
| HKD 10% | 0.6 | 0.9 | 1.6 | 1.7 |

| | Sensitivity of equity | | | |
|---|---|---|---|---|
| | As of December 31, | | | As of June 30, |
| | 2013 | 2014 | 2015 | 2016 |
| | (in millions of RMB) | | | |
| **Currency Changes** | | | | |
| USD 10% | 2.1 | 1.9 | 2.9 | 3.1 |
| HKD 10% | 0.4 | 0.9 | 2.0 | 2.4 |

A 10% strengthening of the RMB against the USD, the HKD and other currencies at the reporting date would have had the equal but opposite effect on the CISC Group's net profit or loss and equity, on the basis that all other variables remain unchanged.

Due to the above assumptions, the actual changes in foreign currency rate and the impact to the CISC Group's net profit or loss and equity might vary from the estimated results of the sensitivity analysis.

## DIVIDEND POLICY

The board of director of CISC is responsible for submitting proposals in respect of dividend payments, if any, to the shareholders' general meeting of CISC for approval. The determination of whether to pay a dividend and in what amount is based on the results of operations, cash flows, financial condition, capital adequacy ratio, cash dividends CISC receives from its subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by CISC and other factors that the board of directors of CISC deems relevant.

According to the articles of association of CISC, CISC will pay dividends out of its distributable profit after tax of the year only after CISC has made the following allocations from its profit after tax of the year:

- recovery of accumulated losses, if any;

- allocations to the statutory surplus reserve equivalent to 10% of the profit after tax, and, when the statutory surplus reserve reaches and is maintained at or above 50% of its registered capital, no further allocations to this statutory surplus reserve will be required;
- allocations to the discretionary surplus reserves after obtaining approvals from Shareholders of CISC;
- allocations to the general risk reserve equivalent to 10% of its profit after tax; and
- allocations to the trading risk reserve equivalent to 10% of its profit after tax.

In accordance with the resolutions of the board of directors of CISC on August 26, 2014, CISC is required to appropriate 5% and 11% of its net profit to the discretionary surplus reserves and general risk reserve, respectively, since 2015.

CISC did not declare or pay cash dividends to its owners in 2013, 2014 and 2015 and for the six months ended June 30, 2016.

## DISTRIBUTABLE RESERVES

As of June 30, 2016, CISC had retained profits of RMB5,268.5 million which will available for distribution to owners of CISC after appropriations for the general reserves and surplus reserve.

## DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

The Directors of the Company have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Hong Kong Listing Rules.

## RECENT DEVELOPMENTS

From July 1 to October 31, 2016, CISC has issued beneficiary certificates with a total principal amount of RMB1,187 million. CISC has also redeemed beneficiary certificates with a total principal amount of RMB2,177 million during the same period.

On November 9, 2016, CISC submitted application to the Shanghai Stock Exchange for the non-public issuance of subordinated bonds of RMB5.0 billion. Subject to the review and approval of the Shanghai Stock Exchange, CISC plans to issue the subordinated bonds by the end of 2016. As at the Latest Practicable Date, no subordinated bonds have been issued pursuant to such application.

## NO MATERIAL ADVERSE CHANGE

Except as disclosed in "— Recent Developments" above, the directors of CISC have confirmed, after performing all the due diligence work which they consider appropriate, that, as of the date of this circular, there has been no other material adverse change in CISC's financial position or prospects since June 30, 2016 and there has been no other event since June 30, 2016 which would have material adverse effect on the information presented in the Accountants' Report in Appendix IV to this circular.

*The following are a summary of the Valuation Report and a letter received from the PRC Valuer, which have been included in the Announcement of the Company dated 4 November 2016 and which are reproduced herein for Shareholders' information.*

A. **Summary of the Valuation Report**

To: Central Huijin Investment Ltd.:

In connection with the proposed acquisition of the entire equity interests in China Investment Securities Company Limited ("**CISC**") by China International Capital Corporation Limited ("**CICC**") from Central Huijin Investment Ltd. ("**Huijin**") and the issue of shares of CICC to Huijin as consideration, China Enterprise Appraisals Co., Ltd. accepted the engagement by Huijin to appraise the market value of the total equity attributable to owners of CISC as of 30 June 2016. The valuation was conducted through necessary valuation procedures by adopting income approach and market approach in accordance with relevant laws, regulations and asset valuation standards and pursuant to the principles of independence, objectiveness and fairness.

## I. THE PRINCIPAL, TARGET COMPANY UNDER VALUATION AND OTHER USERS OF THE VALUATION REPORT AS SPECIFIED IN THE ENGAGEMENT LETTER

The principal of this valuation is Huijin and the target company under valuation is CISC. Other users of the valuation report as agreed in the engagement letter include the competent authorities of both parties as well as report users as prescribed by relevant laws.

(1) **Profile of the Principal**

Company Name: Central Huijin Investments Ltd.

Registered Address: New Poly Plaza, 1 Chaoyangmen Beidajie, Dongcheng District, Beijing, China

Legal Representative: Ding Xuedong

Registered Capital: RMB828,208.6272 million

Company Type: limited liability company (wholly state-owned)

Principal Business Scope: Investment in equity interests of major State-owned financial institutions under the authorisation of the State Council and other related businesses approved by the State Council. (Items which require approvals under the law shall be subject to approval from relevant authorities before the commencement of business)

(2) **Profile of the Target Company under Valuation**

1. Company profile

Name of the Target Company Under Valuation: China Investments Securities Company Limited

Registered Address: 18th-21st Floors and part of the units on 4th Floor, Tower A, Rongchao Business Center, at the Junction of Yitian Road and Fuzhong Road, Futian District, Shenzhen

Legal Representative: Gao Tao

Registered Capital: RMB5 billion

Company Type: limited liability company (wholly state-owned)

Principal Business Scope: securities brokerage; securities investment consulting; financial advisory services in relation to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; margin financing and securities lending; securities investment fund sales agency; and distribution of financial products.

2. CISC's shareholding structure and relevant changes

On 27 September 2005, CISC was formed with the approval of the China Securities Regulatory Commission ("**CSRC**") (approval document reference: (Zheng Jian Ji Gou Zi [2005] No.99). CISC (formerly named as China Jianyin Investment Securities Company Limited) is an integrated securities firm solely sponsored by China Jianyin Investment Ltd. according to the instruction of the State Council and by a market-oriented approach to acquire through bidding for outlets of China Southern Securities Co., Ltd. and its closely related assets. CISC's securities business license No. is Z1687400. Its registered capital is RMB1.5 billion and registration No. is 440301103826399.

According to the relevant official reply of the State Council and the document Cai Jin Han (2009) No.77 issued by the Ministry of Finance, since 31 December 2008, the equity interests of CISC had been transferred from China Jianyin Investment Ltd. to Huijin. The CSRC had approved the change of shareholders in August 2010 and the change of business registration was completed on 2 April 2011. In September 2011, the registered capital of CISC was increased to RMB5 billion with the approval of the CSRC.

In November 2011, CISC's name was changed to "China Investment Securities Company Limited" with the approval of the CSRC and State Administration for Industry and Commerce (SAIC).

As of the Valuation Base Reference Date (as defined below), CISC is a wholly-owned subsidiary of Huijin.

3. Property ownership and operation and management structure

CISC has established 192 security business outlets in large and medium cities nationwide with branches in Beijing, Shanghai, Jiangsu, Sichuan, Guangdong, Henan, Qinghai and Shenzhen. It also owns three wholly-owned holding companies: China Investment Securities (HK) Financial Holdings Limited, China Securities Luckystone Investment Management Co. Ltd. and China Investment Securities Investment Co. Ltd., and China Investment Tianqi Futures Co. Ltd. with 80% holdings.

CISC has established 23 functional departments (11 frontline business departments and 12 management support departments):

Brokerage business: Wealth Management Department, Credit Business Department, Trading Operation Department; Investment banking business: Investment Banking Headquarter and Fixed Income Headquarter; Other businesses: Asset Management Headquarter, Securities Investment Department, International Business Department, OTC Market Management Department, Institutional Sales Trading Department, Internet Finance Department; Board Office, Operation Management Department, Audit Department, Risk Management Department, Legal Compliance Department, Research Headquarter, Planning and Finance Department, Human Resource Department, Information Technology Department, Clearing and Custodian Department, Discipline Inspection and Supervision Department (co-work with Supervisory Committee Office), and Infrastructure Construction Office.

4. Financial Information

The Historical Financial Information (consolidated)

*Unit: RMB million*

| **Financial Position** | **2013** | **2014** | **2015** | **January to June, 2016** |
|---|---|---|---|---|
| Total assets | 31,620 | 65,513 | 96,560 | 84,555 |
| Total liabilities | 22,716 | 55,308 | 82,493 | 69,731 |
| Net assets | 8,904 | 10,206 | 14,067 | 14,824 |
| Operating income | 3,046 | 3,920 | 8,715 | 2,191 |
| Total profit | 1,038 | 1,687 | 4,886 | 1,053 |
| Net profit | 760 | 1,246 | 3,645 | 785 |

The financial statements of CISC for the three years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016 have been audited by Pan-China Certified Public Accountants (LLP), who issued unqualified audit reports in this respect.

5. The relationship between the principal and CISC

CISC is a wholly-owned subsidiary of Huijin.

## II. VALUATION PURPOSE

Pursuant to the Requested Instructions on the Restructuring of CICC and CISC (Document Zhong Tou Zi [2016] No.19), and the official reply from the State Council (Ban [2016] No. 02082), Huijin intended to subscribe for the shares to be issued by CICC with the 100% equity interest it held in CISC. For this reason, the market value of total equity attributable to owners of CISC shall be assessed to provide a value reference basis for the above economic behavior.

## III. TARGET AND SCOPE OF VALUATION

### (1) Valuation Target

The valuation target is the market value of total equity attributable to owners of CISC.

### (2) Valuation Scope

The valuation scope covers the entire assets and liabilities of CISC. On the Valuation Base Reference Date, the assets under the valuation scope include, among others, current assets, long-term investments, fixed assets, construction in progress, intangible assets and other non-current assets; liabilities include, among others, current liabilities and non-current liabilities.

## IV. TYPES OF VALUE AND DEFINITIONS

According to the valuation purpose, the type of value for the valuation target is determined to be the market value.

Market value means the estimated value of the normal and equitable transaction conducted by the valuation target at the Valuation Base Reference Date under the circumstances that the willing buyers and sellers act willingly without duress.

## V. VALUATION BASE REFERENCE DATE

The valuation base reference date is 30 June 2016 (the "**Valuation Base Reference Date**").

The Valuation Base Reference Date is determined by Huijin.

## VI. VALUATION BASIS

(1) **Basis of economic activity**

1. Requested Instructions on the Restructuring of CICC and CISC (Document Zhong Tou Zi [2016]No.19;

2. Official reply from the State Council (Ban [2016]No. 02082).

(2) **Basis of laws and regulations**

1. Company Law of the People's Republic of China (中華人民共和國公司法) (Adopted at the Sixth Session of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China on 28 December 2013);

2. Securities Law of the People's Republic of China (中華人民共和國證券法) (Amended at the Third Session of the Standing Committee of the Twelfth National People's Congress on 29 June 2013);

3. Urban Real Estate Administration Law of the People's Republic of China (中華人民共和國城市房地產管理法) (Adopted at the Twenty-ninth Session of the Standing Committee of the Tenth National People's Congress on 30 August 2007);

4. Land Administration Law of the People's Republic of China (中華人民共和國土地管理法) (Adopted at the Eleventh Session of the Standing Committee of the Tenth National People's Congress on 28 August 2004);

5. Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) (Adopted at the Fifth Session of the Standing Committee of the Tenth National People's Congress on 16 March 2007);

6. Enterprise State-owned Assets Law of the People's Republic of China (中華人民共和國企業國有資產法) (Adopted at the Fifth Session of the Standing Committee of the Eleventh National People's Congress on 28 October 2008);

7. The Interim Regulations for the Supervision and Administration of State-Owned Assets of Enterprises (企業國有資產監督管理暫行條例) (State Council Order No. 378);

8. The Interim Measures for the Administration of the Transfer of State-owned Property Rights in Enterprises (企業國有產權轉讓管理暫行辦法) (the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance Order No. 3);

9. Notice on the Transfer of State-owned Property Rights in Enterprises (關於企業國有產權轉讓有關事項的通知) (Guo Zi Fa Chan Quan [2006] No. 306)

10. Administrative Measures for Valuation of State-owned Assets (國有資產評估管理辦法) (State Council Order No. 91);

11. Notice on Issue of Rules for Implementation of Administrative Measures for Valuation of State-owned Assets (關於印發<國有資產評估管理辦法施行細則>的通知) (Guo Zi Ban Fa [1992] No. 36);

12. Interim Measures for the Administration of Valuation of State-owned Assets of Enterprises (企業國有資產評估管理暫行辦法) (the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) Order No. 12);

13. Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises (金融企業國有資產轉讓管理辦法) (Ministry of Finance Order No. 54);

14. Interim Measures for the Supervision and Administration of Valuation of State-owned Assets of Financial Enterprises (金融企業國有資產評估監督管理暫行辦法) (Ministry of Finance Order No. 47);

15. Notice on Issues of Supervision and Administration of Valuation of State-owned Assets of Financial Enterprises (關於金融企業國有資產評估監督管理有關問題的通知) (Cai Jin [2011] No.59);

16. Ministry of Finance's Notice on Issue of the Trading Rules of Non-listed State-owned Property Rights of Financial Enterprises (財政部關於印發<金融企業非上市國有產權交易規則>的通知) (Cai Jin [2011] No.118);

17. Accounting Standards for Business Enterprises — Basic Standards (企業會計準則—基本準則) (Ministry of Finance Order No. 33);

18. Implementation Rules of Interim Regulations on Value-Added Tax of the People's Republic of China (中華人民共和國增值稅暫行條例實施細則) (the Ministry of Finance and the State Administration of Taxation Order No. 50);

19. Measures for Managing the Risk Control Indicators of Securities Companies (證券公司風險控制指標管理辦法) (CSRC Order No.34);

20. Measures for Managing the Risk Control Indicators of Securities Companies (證券公司風險控制指標管理辦法) (Amended in 2008);

21. Decision on Amending the Measures for Managing the Risk Control Indicators of Securities Companies (關於修改<證券公司風險控制指標管理辦法>的決定) (CSRC Order No.55);

22. Decision on Amending the Provisions on the Calculation Standards for the Risk Capital Reserves of Securities Companies (關於修改〈關於證券公司風險資本準備計算標準的規定〉的決定) (CSRC Announcement [2012] No. 36);

23. The Provisions on Adjusting the Calculation Standards for the Net Capital of Securities Companies (關於調整證券公司淨資本計算標準的規定) (amended in 2012) (CSRC Announcement [2012] No.37);

24. The Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) (the PRC State Council Order No. 522 dated 23 April 2008);

25. The Standards on Corporate Governance of Securities Companies (證券公司治理準則) (CSRC Announcement [2012] No. 41);

26. Notice on Issue of Trial Measures for Managing Risk Regulatory Indicators of Futures Companies (關於發佈<期貨公司風險監管指標管理試行辦法>的通知) (CSRC Zheng Jian Fa [2007] No. 55);

27. Measures for Managing Margin Financing and Securities Lending Business of Securities Companies (證券公司融資融券業務管理辦法) (CSRC Announcement [2011] No. 31);

28. Notice on Issues of Supervision and Administration on Valuation of State-owned Assets of Financial Enterprises (關於金融企業國有資產評估監督管理有關問題的通知) (Cai Jin [2011] No.59);

29. Notice of Comprehensive Roll-out of the Pilot Collection of Value Added Tax in Lieu of Business Tax from Ministry of Finance and State Administration of Taxation (SAT) (財政部、國家稅務總局<關於全面推開營業稅改徵增值稅試點的通知>) (Cai Shui [2016] No. 36);

30. Other relevant legal and regulatory documents.

(3) **Basis of valuation standards**

1. Asset Valuation Standards — Basic Standards (資產評估準則—基本準則) (Cai Qi (2004) No. 20);

2. Asset Valuation Professional Ethical Standards — Basic Standards (資產評估職業道德準則—基本準則) (Cai Qi (2004) No. 20);

3. Guiding Opinions for Certified Public Valuers on Legal Ownership of Subject under Valuation (註冊資產評估師關注評估對象法律權屬指導意見) (Hui Xie [2003] No. 18);

4. Asset Valuation Standards — Valuation Procedure (資產評估準則—評估程序) (Zhong Ping Xie [2007] No. 189);

5. Asset Valuation Standards — Working Paper (資產評估準則—工作底稿) (Zhong Ping Xie [2007] No. 189);

6. Asset Valuation Standards — Machinery & Equipment (資產評估準則—機器設備) (Zhong Ping Xie [2007] No. 189);

7. Guiding Opinions on Types of Value under Asset Valuation (資產評估價值類型指導意見) (Zhong Ping Xie [2007] No. 189);

8. Asset Valuation Standards - Intangible Assets (資產評估準則——無形資產) (Zhong Ping Xie [2008] No. 217);

9. Quality Control Guidelines for Business of Valuation Institutions (評估機構業務質量控制指南) (Zhong Ping Xie [2010] No.214);

10. Asset Valuation Standards — Enterprise Value (資產評估準則——企業價值) (Zhong Ping Xie [2011] No. 227);

11. Asset Valuation Standards - Valuation Report (資產評估準則——評估報告) (Zhong Ping Xie [2011] No. 230);

12. Asset Valuation Standards - Engagement Letter (資產評估準則——業務約定書) (Zhong Ping Xie [2011] No. 230);

13. Asset Valuation Professional Ethical Standards — Independence (資產評估職業道德準則——獨立性) (Zhong Ping Xie [2012] No. 248);

14. Asset Valuation Standards — Making Use of Experts (資產評估準則——利用專家工作) (Zhong Ping Xie [2012] No. 244);

15. Guidelines for the Valuation Reports on State-owned Assets of Financial Enterprises (金融企業國有資產評估報告指南) (Zhong Ping Xie [2010] No. 213).

(4) **Ownership Basis**

1. State-owned Land Use Certificates;

2. Building Ownership Certificates;

3. Motor Vehicles License;

4. Relevant Property Rights Transfer Agreements;

5. Other relevant credentials for property rights.

(5) **Basis of Pricing**

1. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (機動車強制報廢標準規定) (Order No.12 of 2012 issued by Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection);

2. Quotation Manual for Electromechanical Products (機電產品報價手冊) (2016);

3. Benchmark interest rates for bank deposits and loans and foreign exchange rates on the valuation base date;

4. Statistical information published on the website of Securities Association of China;

5. Relevant information published on the website of Shanghai Stock Exchange;

6. Relevant information published on the website of Shenzhen Stock Exchange;

7. Relevant information published by Sina Finance News;

8. Relevant information published by Royal Flush;

9. Relevant information published by WIND Info;

10. Other related valuation information recorded and collected by valuers from on-site survey;

11. Other information related to this asset valuation.

(6) **Other References**

1. List of assets and valuation reporting forms provided by China Investment Securities Co., Ltd.;

2. Audit reports issued by Pan-China Certified Public Accountants (LLP);

3. Data base of China Enterprise Appraisals Co., Ltd..

## VII. VALUATION APPROACHES

Basic approaches for valuing an enterprise primarily include income approach, market approach and asset-based approach.

The income approach for the valuation of an enterprise refers to the valuation approach whereby the value of the subject under valuation is determined by capitalising or discounting the projected income. The specific methods commonly adopted by the income approach include the discounted dividend method and the discounted cash flow method.

The market approach for the valuation of an enterprise refers to the valuation approach whereby the value of the subject under valuation is determined by comparing the subject under valuation with comparable listed companies or comparable transaction cases. The two specific methods commonly adopted by the market approach are the listed company comparison method and the transaction case comparison method.

The asset-based approach for the valuation of an enterprise refers to the valuation approach whereby the value of the subject under valuation is determined by reasonable valuation of on and off balance sheet assets and liabilities on the basis of the balance sheet of the company under valuation on the valuation base reference date.

As prescribed under "Asset Valuation Standards — Enterprise Value", the Certified Public Valuer engaged in the enterprise's valuation shall properly select one or more basic asset valuation approaches by analyzing the applicability of the three basic approaches; namely, income approach, market approach and asset-based approach, of asset valuation in light of the relevant conditions, such as valuation purpose, subject under valuation, valuation type and information collection condition.

According to the relevant conditions, including valuation purpose, valuation target, valuation type and the information collection condition, and the applicable conditions for the three basic valuation approaches, the valuation approaches selected for this valuation are: income approach and market approach. The reasons of selection are set out below.

Since the subject of this valuation is securities company and securities companies are light asset companies, all definite and indefinite intangible assets owned by the appraised unit cannot be comprehensively reflected by the asset-based approach, and the market value of securities companies cannot be objectively reflected by the asset-based approach, hence the asset-based approach is not applicable.

Since there are relatively more comparable listed companies, and the operating and financial data of the comparable enterprises are sufficient and reliable, the listed company comparison method under the market approach can be adopted for this valuation of CISC.

Since CISC has a long history of operation, its future revenue is predictable and valuation information is sufficient, the income approach can be adopted for this valuation of CISC.

Accordingly, the market approach and the income approach are adopted for this valuation. The final valuation results are determined based on the analysis of the rationality and accuracy of both of the valuation results.

(1) **Income Approach**

The income approach for the valuation of an enterprise refers to the valuation approach whereby the value of the subject under valuation is determined by capitalising or discounting the projected income. The income approach is the method whereby the value of an enterprise is measured from the perspective of the future profitability of the enterprise based on the expected utility theory of economics.

The specific methods commonly adopted by the income approach include the discounted dividend method and the discounted cash flow method.

The equity free cash flow discount model of the cash flow discount method was adopted in this valuation. Combined with the business features and operation model of securities companies, the specific formula is described as below:

Total value of shareholders' equity = Total present value of equity cash flow + Non-operating assets and liabilities + Valuation of long term equity investment

Equity cash flow = net profit - increase in equity + other comprehensive income

Increase in equity = closing balance of owners' equity - opening balance of owners' equity

The present value of equity cash flow is calculated as follows:

$$P = \sum_{i=1}^{n} \frac{F_i}{(1+r)^i} + \frac{F_n \times (1+g)}{(r-g) \times (1+r)^n}$$

where: P: Aggregate present value of equity cash flow as at the valuation base reference date;

$F_i$: Estimated equity cash flow for Year i after the valuation base reference date;

$F_n$: Estimated equity cash flow for the last year of the forecast period;

r: Discount rate (cost of equity capital, or $K_e$);

n: Forecast period;

i: Year i of the forecast period;

g: Growth rate for sustainable period.

The cost of equity capital is calculated using the capital asset pricing model (CAPM) with the following formula:

$$K_e = r_f + MRP \times \beta_L + r_c$$

where: $r_f$: Risk-free return rate;

MRP: Market risk premium;

$\beta_L$: Systematic risk coefficient of equity;

$r_c$: Enterprise specific risk adjustment coefficient.

Non-operating assets and liabilities represent those not relating to production and operation of the appraised entities and not involved in forecasting its free cash flows after the valuation base reference date. Non-operating assets and liabilities of the appraised entities include deferred income tax assets, land use right of intangible assets, and deferred income tax liabilities. This valuation is conducted using the cost approach.

Long-term equity investment includes three wholly-owned companies, namely China Investment Securities (HK) Financial Holdings Limited, China Securities Luckystone Investment Management Co. Ltd. and China Investment Securities Investment Co. Ltd. and one holding company, namely China Investment Tianqi Futures Co. Ltd. The market value of the long-term equity investment in this valuation is determined by the appraised value of the investee entity multiplied by the shareholding ratio after the valuation of the above four companies respectively using appropriate methods.

(2) **Market Approach**

This valuation is conducted using the listed company comparison method, with the basic valuation concept as follows:

1. to analyse the basic conditions of the target company under valuation, including the industry in which it operates, its scope of business, size and financial conditions, etc;

2. to identify comparable listed companies. The comparable companies shall have similar characteristics in terms of operation and finance with the target company under valuation;

3. to analyze and compare the major financial indicators between the company under valuation and comparable companies, mainly including financial indicators relating to various aspects such as size of assets under management, operation capability, profitability, risk management capability, and innovation capability;

4. to select an appropriate value multiplier for comparable companies, revise and adjust by adopting appropriate methods to estimate the value multiplier of the company under valuation; and

5. to determine the final equity value of the appraised entity in accordance with the value multiplier of the company under valuation by taking into consideration the discount for lack of market liquidity.

In accordance with the characteristics of the industry where CISC operates, the total equity attributable to owners of CISC shall be valued using the price to book ratio (P/B) valuation model.

The valuation formula is:

Equity value of the target company = total equity of the target company × P/B of the target company × book value of net assets per share of the target company

Where: P/B of the target company = arithmetic mean of the revised P/B of the comparable companies

Revised P/B of the comparable companies = P/B of the comparable companies × P/B revised coefficient of the comparable companies

P/B revised coefficient of the comparable companies = Π adjustment coefficient of influence Factor Ai

Adjustment coefficient of influence Factor Ai=coefficient of the target company/ coefficient of the comparable companies

## VIII. IMPLEMENTATION PROCESS AND CONDITIONS OF VALUATION PROCEDURES

The assets and liabilities related to CISC were valued by our valuers from 20 August 2016 to 7 October 2016. Implementation and conditions of the major valuation procedures are set out as follows:

(1) **Acceptance of Engagement**

We entered into an agreement letter with the entrusting party on the valuation purpose, valuation target, valuation scope, valuation base reference date and other basic issues as well as rights and obligations of the parties, and drafted the valuation plan through negotiation with the entrusting party.

(2) **Preliminary Preparation**

We established a professional valuation team in accordance with the valuation scope, valuation target and time requirement of the entrusting party in this valuation, prepared a valuation plan which set out the specific procedures, time schedule, staff allocation and technical plan of the valuation, and conducted internal trainings.

The valuers prepared the "list of materials for asset valuation" and the corresponding requirements on materials, conducted specific trainings for the relevant staff participating in this valuation and provided guidance to the relevant staff in the company under valuation to conduct preliminary self-assessment on the assets and prepare valuation materials.

(3) **On-site Survey**

1. ***Verification of assets***

We provided guidance to the relevant staff in the company under valuation to fill in forms and prepare information required by the valuers.

Through reviewing relevant information, the valuers gained detailed understandings of the specific assets included in the valuation scope. The valuers conducted on-site surveys on certain sales departments and some properties with assistance from the relevant staff of the appraised entities, using the methods specific to different assets' natures and characteristics in accordance with the Asset Valuation Standards, with reference to the type, quantity and distribution of the assets within the valuation scope.

The valuers carefully and accurately registered and verified the assets contained in the materials lists provided by the valuers based on self-assessment of the assets by the appraised entity. Meanwhile they collected and prepared title certificates of appraised assets and the documents and information evidencing their performance, conditions as well as their economic and technical indicators.

2. ***Due diligence investigation***

A necessary due diligence investigation was carried out by the valuers to fully understand the operation and management of CISC and its risk exposure. The main scope of the due diligence includes to:

a) understand the history and evolution, substantial shareholders and shareholding ratios, necessary ownership and operation management structure of the company under valuation;

b) understand the assets, financial situation, production, operation and management status of the company under valuation;

c) understand historical operating conditions such as previous annual income, cost and expenses of the company under valuation;

d) understand the operation plan and development plan of the company under valuation;

e) understand previous valuations and transactions of the company under valuation;

f) understand the macro and regional economic factors affecting the production and operation of the company under valuation;

g) understand the industry development and outlook of the company under valuation;

h) understand the regulatory constraints of the profit distribution and risk control indicators for net capital of the company under valuation;

i) understand the risk rating and the risk capital reserve calculation ratios of the company under valuation;

j) understand the business data such as net trading commission and income from the securities brokerage business, margin financing and securities lending business, and the ranking of the company under valuation in the industry;

k) other relevant information.

(4) ***Collection of Information***

Information relevant to the valuation target was collected by valuers according to the specific situation of the particulars under evaluation, including information sourced directly from the market and other independent channels, information from the entrusting party and relevant parties, and information from government authorities, professional institutions and other relevant authorities. Such information was analysed, summarised and compiled where necessary, to form the basis for valuation and estimation.

(5) ***Valuation and Estimation***

According to the specific conditions of various types of assets, the valuers selected the corresponding formulae and parameters according to the valuation method adopted to conduct analysis, computation and judgment to arrive at the initial valuation results. Based on the summary of initial valuation results for each asset class, the project leader prepared the draft valuation report.

(6) ***Internal Review***

According to the requirements of the Administrative Measures for the Valuation Process (評估業務流程管理辦法), the project leader submitted the first proof of valuation report for client's internal review after the draft valuation report passed the first round of review of the valuer. After the completion of our internal review, a consultation paper on the valuation report was drafted by the project leader and submitted to the client for comments. Based on the feedbacks from the client, reasonable amendments were made and the finalized valuation report was submitted to the entrusting party.

## IX. VALUATION ASSUMPTIONS

The assumptions adopted for analysis and estimation in this Valuation Report are as follows:

(1) **General Assumptions**

- CISC will continue its operation after the Valuation Base Reference Date;
- the management of CISC will remain responsible, stable and capable of performing their duties after the Valuation Base Reference Date, and will operate and manage CISC as planned;

- CISC will be in full compliance with all applicable laws and regulations of the PRC; and

- the economic and political climate, legal and regulatory framework and social environment of the PRC are in a normal state of development; and there will be no unforeseeable force majeure events that would materially and adversely affect the development of CISC after the Valuation Base Reference Date.

(2) **Special Assumptions**

- the accounting policies adopted by CISC after the Valuation Base Reference Date are consistent with the accounting policies adopted by CISC when preparing the valuation report in all material respects;

- the forecast on the profitability and distribution capability of CISC is based on the assumption of maximum distributable dividends of CISC, which is the maximum amount of net profit of CISC that can be declared and distributed as dividend, after deducting certain reserves according to the requirements of various risk control indicators stipulated in the "Administrative Measures for Risk Control Indicators of Securities Companies" (《證券公司風險控制指標管理辦法》) and taking into account a reasonable expectation of the future business operational development; and

- in any given forecasted year/period, the cash inflow and outflow of CISC are evenly spread out throughout such year/period.

## X. VALUATION CONCLUSION

(1) **Valuation Result under the Income Approach**

As at the Valuation Base Reference Date, the book value of net assets of CISC was RMB14,375.174 million, CISC's net assets attributable to the parent company in the consolidated statements was RMB14,719.910 million.

The entire shareholders' equity was valued at RMB16,700.695 million under the income approach, representing an appreciation of RMB2,325.521 million or 16.18%. The P/B based on the net assets attributable to the parent company was 1.13.

(2) **Valuation Result under the Market Approach**

As of the Valuation Base Reference Date, the book value of net assets of CISC was RMB14,375.174 million, CISC's net assets attributable to the parent company in the consolidated statements was RMB14,719.910 million.

The entire shareholders' equity was valued at RMB16,467.060 million under the market approach, representing an appreciation of RMB2,091.886 million or 14.55%. The P/B based on the net assets attributable to the parent company was 1.12.

(3) **Valuation Conclusion**

The entire shareholders' equity was valued at RMB16,700.695 million under the income approach, while the entire shareholders' equity was valued at RMB16,467.060 million under the market approach. Accordingly, the difference is RMB233.635 million, representing a discrepancy rate of 1.42%.

The difference in the valuation results under the two approaches was mainly due to their different perspectives. The valuation result under the market approach was from the perspective of comparable market prices. The valuation result under the income approach was from the perspective of future profitability of the enterprise, which reflected the consolidated profitability of assets of the enterprise.

According to the Asset Valuation Standards Enterprise Value (資產評估準則—企業價值), in the valuation of enterprise value, different valuation approaches may be adopted to arrive at different initial valuation conclusions. Where different initial valuation conclusions are arrived at via more than one valuation approach, a reasonable conclusion shall be established after giving overall consideration to the rationality of each valuation approach and its initial valuation conclusion, as well as the quality and quantity of data used in the valuation.

Under the market approach, comparable listed companies were selected for comparing the financial data of the company under valuation against that of comparable listed companies with adjustments made where necessary. The subject economic activity was in relation to Huijin's proposed subscription for the shares to be issued by CICC with its entire equity interest in CISC and the focus was the swap of Huijin's shareholder's equity in CISC with the equity interests in the shares to be issued by CICC. CICC is listed in Hong Kong and its equity value is measured by the price of its shares listed in Hong Kong. CISC's business is substantially in Mainland China and its assets will be listed on the Hong Kong market upon completion of the subject economic activity. By reference to the above factors and practices for similar transactions, some securities companies with business in Mainland China and listed in Hong Kong were selected as major comparable companies for this valuation. However, the number of securities companies based in China that have issued H-shares is limited, the valuation under market approach suffers certain limitations. The valuation under income approach gave a comprehensive consideration to the corporate business structure, customer resources, management, operation qualifications, human capital and other factors. Therefore, the valuation conclusion arrived at under the income approach is more capable to present a fair and full reflection of the value of the entire shareholders' equity of the enterprise.

Accordingly, the valuation result under the income approach, being the value of the entire shareholders' equity of CISC of RMB16,700.695 million, was taken as the valuation conclusion.

## XI. SPECIAL ISSUES EXPLANATIONS

The following issues were identified in the valuation process that might affect the valuation conclusion but they are beyond the professional practice levels and valuation capabilities of our valuers:

### (1) Application of Professional Reports

The type and carrying amount of assets in this valuation report were based on the Audit Report on China Investment Securities Company Limited (《中國中投證券有限責任公司審計報告》) (Report Number: Tian Jian Shen〔2016〕No. 3-587) issued by Pan-China Certified Public Accountants LLP. The opinions in the aforesaid audit report are that the financial statements of CISC have been prepared in accordance with the Accounting Standards of Business Enterprises in all material aspects, which fairly reflected its consolidated and parent company's financial positions as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, and its consolidated and parent company's operating results and cash flows for the years of 2013, 2014, 2015 and the first half of 2016.

### (2) Ownership of Assets

1. ***Properties and buildings***

A total of 13 properties and buildings of CISC, with a total gross floor area of 5,815.88 sq.m., were included in the scope of this valuation, including: ① the office building for the Haikou Longhua Road Securities Branch (海口龍華路營業部) located in No. 15 Longhua Road, Haikou, the ownership certificate for which has been obtained with the certificate number of "Haikou Fang Quan Zheng Hai Fang Zi No. 40472 (海口市房權證海房字第40472號)" and "CISC Haikou Longhua Road Securities Branch (中投證券海口龍華路營業部)" as the owner of the building; ② 12 properties obtained by CISC from the People's Government of Shenzhen Municipality as houses for talents introduced from areas outside Shenzhen. The ownership certificates for these buildings have not been obtained as at the Valuation Base Reference Date and were pending for the introduction of relevant policies for ownership certificate application for such buildings by the government of Shenzhen.

2. ***Land use rights***

a) *Land use rights on the Land B203-0021*

On 29 June 2007, CISC and China Construction Bank Corporation Limited Shenzhen Branch (jointly as the transferees) and Shenzhen Municipal Bureau of Land Resources and Housing Management entered into a Contract for Granting Land Use Rights in Shenzhen, pursuant to which the Land Parcel No. 31-4-1 located in Futian Central District with an area of 7,095.58 sq.m. used for non-commercial housing purpose was not allowed to be used for real estate development and should be used only by itself for the joint construction of the CCB Tower. The land premium of RMB 267,731,292.00 has been settled by China

Construction Bank Corporation Limited Shenzhen Branch. According to the agreement entered into between CISC and China Construction Bank Corporation Limited Shenzhen Branch on 30 January 2008, after completion of the construction of CCB Tower, it is owned 20% by CISC and 80% by China Construction Bank Corporation Limited Shenzhen Branch. As of 31 December 2010, CISC made a payment of RMB 55,943,365.81(including land premium). On 10 May 2013, the First Direct Administration Bureau of Urban Planning and Land Resources Committee of Shenzhen (深圳市規劃和國土資源委員會第一直屬管理局), China Construction Bank Corporation Limited Shenzhen Branch and CISC entered into the Second Supplemental Agreement to the Contract for Granting Land Use Rights in Shenzhen with file reference Shen Di He Zi (2006) No. 0230, pursuant to which CISC should return 20% of the land use rights and the First Direct Administration Bureau of Urban Planning and Land Resources Committee of Shenzhen should refund the land premium of RMB 43,693,747.00 for the remaining term. At the Valuation Base Reference Date, the land return mentioned above has not been completed.

b) *Land-Use Rights of T107-0071*

On 28 October 2013, the Company entered into Land Use Rights Grant Contract with file reference Shen Di He Zi (2013) No. 8018 to purchase a land parcel No. T107-0071 located at Houhai Avenue, Nanshan District, Shenzhen, for commercial and office use, with an area of 4,336.83 sq.m., which was a plot for commercial housing use. The land use right was for a term of 40 years commencing on 28 October 2013 and expiring on 27 October 2053 with a land premium of RMB 561 million. According to the Land Use Rights Grant Contract, it is agreed that the construction of the China Investment Building should be completed before 27 October 2016. "Five clearances" and ground leveling on the plot have been completed and there are no buildings and structures erected thereon. Due to changes in corporate decision, as of the Valuation Base Reference Date, the construction of the China Investment Building has been suspended and there is no development plan for the time being.

Up to the Valuation Base Reference Date, the construction of the above land parcel has not commenced while it should have be commenced before 28 October 2014 as stipulated in the Land Use Rights Grant Contract. According to Article 2 of the Measures on the Disposal of Idle Land (《閒置土地處置辦法》) (Ministry of Land and Resources Order No. 53), if the construction of a land parcel has not commenced after one year from the commencement date as agreed / prescribed in the contract for assignment of the right to the use of state-owned construction land, such action is suspected to constitute land idling, and might be exposed to the risk of being fined by the government according to the Measures on the Disposal of Idle Land. Meanwhile, the Measures on the Disposal of Idle Land also stipulates that, if the delay of commencement is caused by government acts, which can be verified, measures such as extending the time period for construction can be consulted on with the government. There are still uncertainties whether the land parcel will be identified as idle land, and this valuation has not considered relevant fees required to be paid if such land parcel being identified as idle land.

Pursuant to the Notice of Comprehensive Roll-out of the Pilot Collection of Value Added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36) jointly issued by the Ministry of Finance and the State Administration of Taxation recently, as well as four supporting policies including the Implementing Measures for Pilot Collection of Value-Added Tax in Lieu of Business Tax (營業稅改徵增值稅試點實施辦法), the Provisions on Matters Concerning the Pilot Collection of Value-Added Tax in Lieu of Business Tax (營業稅改徵增值稅試點有關事項的規定), the Provisions on the Transit Policies for the Pilot Collection of Value-Added Tax in Lieu of Business Tax (營業稅改徵增值稅試點過渡政策的規定) and the Provisions on VAT Zero Rate and Tax Exemption Policy Applicable to Cross-border Taxable Activities (跨境應稅行為適用增值稅零稅率和免稅政策的規定), pilot collection of Value-Added Tax in Lieu of Business Tax was comprehensively rolled out since 1 May 2016 on a nationwide basis, where Value-Added Tax will replace Business Tax to cover all the sectors such as construction, real estate, financial services and lifestyle services that used to fall under the Business Tax regime. The finance industry is subject to a tax rate of 6%. The effects of Value-Added Tax Reform have been taken into consideration when adopting the income approach in this valuation.

Users of this valuation report should pay attention to the aforementioned effects of special issues on the conclusion of valuation.

XII. **Notes of Restriction on the Use of Valuation Report**

(1) This valuation report shall only be used for the valuation objectives and purposes specified herein.

(2) This valuation report shall only be used by the users of the valuation report specified herein.

(3) Before any part or all of the contents of this valuation report is extracted, quoted or disclosed to the public media, the related contents shall be reviewed by the valuation institution, unless required by the laws, regulations or otherwise agreed by the relevant parties.

(4) This valuation report must be signed by the valuer and sealed by the valuation institution before it can be officially used.

(5) This valuation report can only be officially used after being approved by the state-owned assets supervision and administration authorities.

(6) The conclusion of the valuation shown in the valuation report shall only be valid for the economic activity described herein. The validity period of the conclusion of valuation is one year commencing from the Valuation Base Reference Date.

XIII. **Valuation Report Date**

This valuation report was issued on 7 October 2016.

Legal Representative: Quan Zhongguang

Valuer: Kang Zhigang

Valuer: Liu Yuhui

Address: Floor 9, Prime Tower, No.22 Chaowai Street, Chaoyang District, Beijing, the PRC

China Enterprise Appraisals Co., Ltd.
7 October 2016

B. **Letter from the PRC Valuer**

To: Central Huijin Investment Ltd.:

In connection with the proposed acquisition of the entire equity interests in China Investment Securities Company Limited ("**CISC**") by China International Capital Corporation Limited ("**CICC**") from Central Huijin Investment Ltd. ("**Huijin**") and the issue of shares of CICC to Huijin as consideration, China Enterprise Appraisals Co., Ltd. accepted the engagement by Huijin to appraise the market value of the total equity attributable to owners of CISC as of 30 June 2016 and has issued the valuation report (valuation report reference number: 2016 No. 1350) (the "**Valuation Report**"). The Valuation Report has been approved by the Ministry of Finance (approval reference number: Cai Jin [2016] No. 94). Based on the Valuation Report, the appraisal value of the total equity attributable to owners of CISC as of 30 June 2016, adopting the income approach, was RMB16,700.695 million.

We have reviewed the financial information of CISC as of 30 September 2016 and conducted analysis on the operation of CISC during the six months ended 30 June 2016 and the three months ended 30 September 2016, and compared those with the statistics and data used in the Valuation Report. We confirm that there was no material change in the assumptions, bases and methods of valuation adopted in the Valuation Report during the period from 30 June 2016 to 30 September 2016. Accordingly, there was no material change in the appraisal value of CISC as at 30 September 2016 as compared to that set out in the Valuation Report.

China Enterprise Appraisals Co., Ltd.
4 November 2016

## 1. FURTHER INFORMATION ABOUT THE COMPANY

### (A) Incorporation

The Company was established in the PRC on July 31, 1995 as a Chinese-foreign equity joint venture under the laws of the PRC with a registered capital of US$100 million.

The Company has established a place of business in Hong Kong at 29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Hong Kong Companies Ordinance on July 9, 2015.

### (B) Changes in Share Capital of the Group

#### a) The Company

Upon establishment, the initial registered capital of the Company was US$100 million.

On June 1, 2015, the Company was converted into a joint stock company with limited liability. Upon the conversion, the Company had a total share capital of RMB1,667,473,000 comprising 1,667,473,000 shares with nominal value of RMB1.00 each.

On November 9, 2015, the Company was successfully listed on the Stock Exchange and initially issued 555,824,000 H Shares. On November 11, 2015, the Company further issued 83,372,000 H Shares upon the exercise of over-allotment option. After the completion of the global offering and the exercise of the over-allotment option, the total number of issued shares of the Company increased from 1,667,473,000 Shares to 2,306,669,000 Shares, comprising 786,491,631 Domestic Shares and 1,520,177,369 H Shares.

#### b) Principal Subsidiaries of the Company

The following sets out the changes in the share capital of the principal subsidiaries of the Company within the two years immediately preceding the date of this circular.

***CICC US Securities, Inc.***

The issued share capital of CICC US Securities, Inc. was increased from US$49,000,000 to US$53,000,000 on December 29, 2014, in which 40 shares were allotted to China International Capital Corporation (USA) Holdings Inc. for a cash consideration of US$4,000,000.

***China International Capital Corporation (Singapore) Pte. Limited***

The issued share capital of China International Capital Corporation (Singapore) Pte. Limited was increased from S$37,000,000 to S$42,000,000 on December 29, 2014, in which 5,000,000 ordinary shares were allotted to China International Capital Corporation (Hong Kong) Limited for a cash consideration of S$5,000,000; and from S$42,000,000 to S$47,000,000 on July 27, 2015, in which 5,000,000 ordinary shares were allotted to China International Capital Corporation (Hong Kong) Limited for a cash consideration of S$5,000,000.

***CICC Fund Management Co., Ltd.***

The registered capital of CICC Fund Management was increased from RMB100,000,000 to RMB150,000,000 on July 1, 2015, in which it was subscribed by the Company; and from RMB150,000,000 to RMB200,000,000 on November 21, 2015, in which it was subscribed by the Company.

Save as disclosed in this circular, there has been no other alteration in the share capital of any of the principal subsidiaries of the Company within the two years preceding the date of this circular.

## 2. FURTHER INFORMATION ABOUT CISC

### (A) Changes in Share Capital of the Major Subsidiaries of the CISC

The registered capital of China Investment Securities (HK) Financial Holdings was increased from HK$180,000,000 to HK$500,000,000 on March 30, 2016, in which it was subscribed by CISC.

Save as disclosed in this circular, there has been no other alteration in the share capital of any of the principal subsidiaries of CISC within the two years preceding the date of this circular.

## (B) Intellectual Property Rights of the Group and CISC

Details of the material trademarks and domain names of the Group and CISC are set out as below.

### a) Trademarks

As at the Latest Practicable Date, CISC has registered the following material trademarks in certain jurisdictions:

| No. | Trademark | Place of registration | Class | Registration Number | Effective Period |
|---|---|---|---|---|---|
| 1 | | PRC | 36 | 12307676 | August 28, 2014 to August 27, 2024 |
| 2 | | PRC | 36 | 11350937 | April 7, 2014 to April 6, 2024 |
| 3 | | PRC | 35 | 10307024 | April 7, 2014 to April 6, 2024 |
| 4 | | PRC | 36 | 11350969 | January 21, 2014 to January 20, 2024 |
| 5 | | PRC | 36 | 12307674 | August 28, 2014 to August 27, 2024 |
| 6 | | PRC | 35 | 12307675 | August 28, 2014 to August 27, 2024 |
| 7 | | PRC | 36 | 10307210 | March 28, 2014 to March 27, 2024 |
| 8 | | PRC | 35 | 12307673 | August 28, 2014 to August 27, 2024 |

### b) Domain Names

As at the Latest Practicable Date, CISC has registered the following material Internet domain names:

| No. | Domain Name | Place of registration | Expiry Date |
|---|---|---|---|
| 1. | e95532.me | PRC | November 20, 2017 |
| 2. | e95532.com | PRC | November 20, 2017 |
| 3. | e95532.cn | PRC | November 20, 2017 |
| 4. | e95532.net | PRC | November 20, 2017 |
| 5. | e95532.com.cn | PRC | November 20, 2017 |
| 6. | 中國中投證券.com | PRC | January 13, 2018 |
| 7. | china-invs.hk | PRC | December 20, 2017 |
| 8. | ztzq.hk | PRC | November 30, 2017 |
| 9. | cisc.hk | PRC | June 8, 2017 |
| 10. | 中國中投證券有限責任公司.com | PRC | June 8, 2017 |

| No. | Domain Name | Place of registration | Expiry Date |
|---|---|---|---|
| 11. | 中國中投證券有限責任公司.net | PRC | June 8, 2017 |
| 12. | cjis.hk | PRC | March 1, 2018 |
| 13. | china-cis.asia | PRC | October 15, 2017 |
| 14. | china-cis.cn | PRC | October 15, 2017 |
| 15. | china-cis.com.cn | PRC | October 15, 2017 |
| 16. | china-cis.me | PRC | October 15, 2017 |
| 17. | china-cis.mobi | PRC | October 15, 2017 |
| 18. | china-cis.org | PRC | October 15, 2017 |
| 19. | china-cis.tel | PRC | October 15, 2017 |
| 20. | cis-china.asia | PRC | October 15, 2017 |
| 21. | cis-china.com.cn | PRC | October 15, 2017 |
| 22. | cis-china.me | PRC | October 15, 2017 |
| 23. | cis-china.mobi | PRC | October 15, 2017 |
| 24. | cis-china.net | PRC | October 15, 2017 |
| 25. | cis-china.org | PRC | October 15, 2017 |
| 26. | cis-china.tel | PRC | October 15, 2017 |
| 27. | china-invs.cn | PRC | December 4, 2017 |
| 28. | china-invs.com | PRC | December 4, 2017 |
| 29. | china-invs.com.cn | PRC | December 4, 2017 |
| 30. | china-isc.cn | PRC | December 4, 2017 |
| 31. | china-invs.net | PRC | December 4, 2017 |
| 32. | china-invs.net.cn | PRC | December 4, 2017 |
| 33. | china-isc.com.cn | PRC | December 4, 2017 |
| 34. | china-isc.net.cn | PRC | December 4, 2017 |
| 35. | china-isc.net | PRC | December 4, 2017 |
| 36. | cinvs.cn | PRC | December 4, 2017 |
| 37. | cinvs.com.cn | PRC | December 4, 2017 |
| 38. | cinvs.net | PRC | December 4, 2017 |
| 39. | cinvs.net.cn | PRC | December 4, 2017 |
| 40. | cisecurities.com | PRC | June 10, 2017 |
| 41. | cisecurities.cn | PRC | July 10, 2017 |
| 42. | cisecurities.com.cn | PRC | July 10, 2017 |
| 43. | cisecurities.net.cn | PRC | July 10, 2017 |
| 44. | cisecurities.net | PRC | June 10, 2017 |
| 45. | cistock.cn | PRC | July 10, 2017 |
| 46. | cistock.com.cn | PRC | July 10, 2017 |
| 47. | cistock.net.cn | PRC | July 10, 2017 |
| 48. | cjis.cn | PRC | July 10, 2017 |
| 49. | cjis.com.cn | PRC | July 10, 2017 |
| 50. | cjis.net.cn | PRC | July 10, 2017 |
| 51. | csecurities.cn | PRC | July 10, 2017 |
| 52. | csecurities.com.cn | PRC | July 10, 2017 |
| 53. | csecurities.net | PRC | July 10, 2017 |
| 54. | csecurities.net.cn | PRC | July 10, 2017 |
| 55. | ecisc.cn | PRC | July 10, 2017 |

| No. | Domain Name | Place of registration | Expiry Date |
|---|---|---|---|
| 56. | ecisc.com.cn | PRC | July 10, 2017 |
| 57. | ecisc.net.cn | PRC | July 10, 2017 |
| 58. | esecurities.cn | PRC | July 10, 2017 |
| 59. | esecurities.com.cn | PRC | July 10, 2017 |
| 60. | esecurities.net.cn | PRC | July 10, 2017 |
| 61. | ztzq.cn | PRC | July 10, 2017 |
| 62. | 中投證券.net | PRC | June 10, 2017 |
| 63. | 中投證券.com | PRC | June 10, 2017 |
| 64. | 中投證券.公司 | PRC | August 21, 2017 |
| 65. | 中投證券.網絡 | PRC | August 21, 2017 |
| 66. | 中投證券.中國 | PRC | July 10, 2017 |
| 67. | 中投證券.cn | PRC | July 10, 2017 |
| 68. | tqfutures.com | PRC | August 4, 2023 |
| 69. | china-invf.com | PRC | April 12, 2024 |

c) **Trademarks and domain names of the Group**

For material trademarks and domain names of the Group, please refer to "— Intellectual Property Right" under "Appendix VI — Statutory and General Information" of the prospectus issued by the Company on 27 October 2015 for details. The following is the hyperlink to the prospectus of the Company dated 27 October 2015.

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/1027/LTN20151027031.pdf

## 3. RESPONSIBILITY STATEMENT

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

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to Huijin and CISC) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by Huijin and CISC) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors of Huijin accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Group) and confirm, having made all reasonable inquiries, that to the best knowledge of the directors of Huijin, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## 4. SHARE CAPITAL

The registered share capital of the Company (i) as at December 31, 2015; (ii) as at the date of this circular; and (iii) assuming completion of the Proposed Acquisition and the allotment and issue of the Consideration Shares were and will be as follows:

| | As at December 31, 2015 | | As at the date of this circular | | Immediately after completion of the Proposed Acquisition and the allotment and issue of the Consideration Shares | |
|---|---|---|---|---|---|---|
| | Number of Shares | Percentage (%) | Number of Shares | Percentage (%) | Number of Shares | Percentage (%) |
| Domestic Shares | 786,491,631 | 34.10 | 786,491,631 | 34.10 | 2,464,953,440 | 61.85 |
| H Shares | 1,520,177,369 | 65.90 | 1,520,177,369 | 65.90 | 1,520,177,369 | 38.15 |
| **Total** | **2,306,669,000** | **100.00** | **2,306,669,000** | **100.00** | **3,985,130,809** | **100** |

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Consideration Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue on the respective date of allotment of the Consideration Shares. The issued H Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange. In addition, as at the Latest Practicable Date, the Company had no convertible securities, options, derivatives or warrants outstanding and had not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company.

## 5. MARKET PRICE

The table below shows the closing price per Share as quoted by the Stock Exchange (i) on the last day on which trading took place in each of the six calendar months during the period commencing six months preceding the Last Trading Day and ending on the Latest Practicable Date; (ii) on November 3, 2016, being the Last Trading Day; and (iii) as at the Latest Practicable Date:

| Date | Closing price per Share |
|---|---|
| | (HK$) |
| May 31, 2016 | 12.04 |
| June 30, 2016 | 11.78 |
| July 29, 2016 | 11.22 |
| August 31, 2016 | 11.46 |
| September 30, 2016 | 10.60 |
| October 31, 2016 | 11.40 |
| November 3, 2016 (Last Trading Day) | 11.62 |
| November 30, 2016 | 11.38 |
| Latest Practicable Date | 11.22 |

The highest and lowest closing prices per Share recorded on the Stock Exchange during the period between May 4, 2016 (being the date falling six months prior to November 4, 2016, i.e. the date when trading in the Shares was suspended for purpose of the Proposed Acquisition) and the Latest Practicable Date (both dates inclusive) are HK$12.36 recorded on July 12, 2016 and HK$10.30 recorded on September 28, 2016, respectively.

## 6. DISCLOSURE OF INTERESTS

### (A) Director, Supervisor and chief executive's interests and short positions in shares and underlying shares of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model code as set out in Appendix 10 to the Listing Rules were as follows:

| Name of Director/Supervisor/Chief Executive | Class of Shares | Nature of interest | Number of securities | Approximate percentage of shareholding in the total share capital of the Company | Approximate percentage of shareholding in the relevant class of shares |
|---|---|---|---|---|---|
| David Bonderman | H Shares | Interest of controlled corporation *(Note 1)* | 171,749,719 | 7.446 | 11.298 |

| Name of Director/Supervisor/Chief Executive | Class of Shares | Nature of interest | Number of securities | Approximate percentage of shareholding in the total share capital of the Company | Approximate percentage of shareholding in the relevant class of shares |
|---|---|---|---|---|---|
| Cha Mou Daid Johnson . | H Shares | Beneficial owner | 753,600 | 0.033 | 0.050 |
| | | Beneficiary of a discretionary trust *(Note 2)* | 122,559,265 | 5.313 | 8.062 |
| Edwin Roca Lim .......... | H Shares | Beneficial owner | 356,000 | 0.015 | 0.023 |
| Shi Jun ........................ | H Shares | Others *(Note 3)* | 116,800 | 0.005 | 0.008 |
| Siu Wai Keung ............ | H Shares | Beneficial owner | 100,000 | 0.004 | 0.007 |
| Han Weiqiang .............. | H Shares | Others *(Note 4)* | 116,800 | 0.005 | 0.008 |

*Notes:*

(1) The interests deemed to be held by Mr. David Bonderman consists of 171,749,719 H Shares held by TPG. Each of TPG Asia GenPar V, L.P. (as general partner of TPG), TPG Asia GenPar V Advisors, Inc. (as general partner of TPG Asia GenPar V, L.P.), TPG Holdings I, L.P. (as general partner of TPG Asia GenPar V Advisors, Inc.), TPG Holdings I-A, LLC (as general partner of TPG Holdings I, L.P.), TPG Group Holdings (SBS), L.P. (as the sole member of TPG Holdings I-A, LLC and the sole member of TPG Holdings II-A, LLC), TPG Group Holdings (SBS) Advisors, Inc. (as general partner of TPG Group Holdings (SBS), L.P.), Mr. David Bonderman and Mr. James Coulter (each holds a 50% interest in TPG Group Holdings (SBS) Advisors, Inc.), as well as TPG Capital Management, L.P. (as the managing general partner of TPG), TPG Capital Advisors, LLC (as general partner of TPG Capital Management, L.P.), TPG Holdings II Sub, L.P. (as the sole member of TPG Capital Advisors, LLC), TPG Holdings II, L.P. (as general partner of TPG Holdings II Sub, L.P.), TPG Holdings II-A, LLC (as general partner of TPG Holdings II, L.P.), is deemed to be interested in the H Shares held by TPG under the SFO. Mr. Bonderman and Mr. Coulter disclaim beneficial ownership of the securities held by TPG except to the extent of their pecuniary interest therein.

(2) The interests deemed to be held by Mr. Cha Mou Daid Johnson consists of 122,559,265 H Shares held by Mingly. Mingly is held by certain, but not identical discretionary trusts as to 96.12%, of which CCM Trust (Cayman) Limited, LBJ Regents Limited and Dolios Limited are the corporate trustees, and Mr. Cha Mou Daid Johnson is among the members of the class of discretionary beneficiaries.

(3) Mr. Shi Jun held interests through asset management schemes established by Galaxy Capital Asset Management Co., Ltd.

(4) Mr. Han Weiqiang held interests through asset management schemes established by Galaxy Capital Asset Management Co., Ltd.

## (B) Substantial Shareholders' interests and short positions in shares and underlying shares of the Company and its associated corporations

As at the Latest Practicable Date, to the knowledge of the Company and the Directors after making reasonable inquiries, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) have interests or short positions in shares or underlying shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

| Name of Substantial Shareholders | Class of Shares | Nature of interest | Number of securities | Approximate percentage of shareholding in the total share capital of the Company | Approximate percentage of shareholding in the relevant class of shares |
|---|---|---|---|---|---|
| Huijin | Domestic Shares | Beneficial owner *(Note 1)* | 2,334,655,680 | 101.213 | 296.844 |
| | | Interests of controlled corporation *(Note 2)* | 2,734,800 | 0.119 | 0.348 |
| GIC | H Shares | Beneficial owner | 273,091,435 | 11.839 | 17.965 |
| TPG *(Note 3)* | H Shares | Beneficial owner | 171,749,719 | 7.446 | 11.298 |
| KKR Institutions Investments *(Note 4)* | H Shares | Beneficial owner | 166,747,300 | 7.229 | 10.969 |
| I&G *(Note 5)* | Domestic Shares | Beneficial owner | 127,562,960 | 5.530 | 16.219 |
| Mingly *(Note 6)* | H Shares | Beneficial owner | 122,559,265 | 5.313 | 8.062 |
| Great Eastern *(Note 7)* | H Shares | Beneficial owner | 83,373,650 | 3.614 | 5.484 |

*Notes:*

(1) Taking into consideration the 1,678,461,809 Consideration Shares to be subscribed for by Huijin pursuant to the Equity Transfer Agreement.

(2) Each of Jianyin Investment, JIC Investment and China Investment Consulting is wholly owned by Huijin. Therefore, Huijin is deemed to be interested in 2,734,800 Domestic Shares held by Jianyin Investment, JIC Investment and China Investment Consulting for the purpose of the SFO.

(3) Each of TPG Asia GenPar V, L.P. (as general partner of TPG), TPG Holdings I, L.P. (as general partner of TPG Asia GenPar V Advisors, Inc.), TPG Holdings I-A, LLC (as general partner of TPG Holdings I, L.P.), TPG Group Holdings (SBS), L.P. (as the sole member of TPG Holdings I-A, LLC and the sole member of TPG Holdings II-A, LLC), TPG Group Holdings (SBS) Advisors, Inc. (as general partner of TPG Group Holdings (SBS), L.P.), Mr. David Bonderman and Mr. James Coulter (each holds a 50% interest in TPG Group Holdings (SBS) Advisors, Inc.), as well as TPG Capital Management, L.P. (as the managing general partner of TPG), TPG Capital Advisors, LLC (as general partner of TPG Capital Management, L.P.), TPG Holdings II Sub, L.P. (as the sole member of TPG Capital Advisors, LLC), TPG Holdings II, L.P. (as general partner of TPG Holdings II Sub, L.P.), TPG Holdings II-A, LLC (as general partner of TPG Holdings II, L.P.), is deemed to be interested in the H Shares held by TPG under the SFO. Mr. Bonderman and Mr. Coulter disclaim beneficial ownership of the H Shares held by TPG except to the extent of their pecuniary interest therein.

(4) Each of KKR Associates Asia L.P. (as general partner of KKR Institutions Investments), KKR Associates Millennium L.P. (as general partner of KKR Institutions Investments), KKR Millennium GP LLC (as general partner of KKR Associates Millennium L.P.), KKR Asia Limited (Cayman Islands) (as general partner of KKR Associates Asia L.P.), KKR Fund Holdings L.P. (as the sole shareholder of KKR Asia Limited (Cayman Islands)), KKR Fund Holdings GP Limited (as general partner of KKR Fund Holdings L.P.), KKR Group Holdings L.P. (as general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited), KKR Group Limited (as general partner of KKR Group Holdings L.P.), KKR & Co. L.P. (as the sole shareholder of KKR Group Limited), KKR Management LLC (as general partner of KKR & Co. L.P.) and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) is deemed to be interested in the H Shares held by KKR Institutions Investments under the SFO. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the H Shares held by KKR Institutions Investments.

(5) State Development & Investment Corporation (國家開發投資公司), a PRC state-owned enterprise, holds approximately 47.20% shares of I&G and is therefore deemed to be interested in the Domestic Shares held by I&G under the SFO.

(6) Mingly is held by certain, but not identical discretionary trusts as to 96.12%, of which CCM Trust (Cayman) Limited, LBJ Regents Limited and Dolios Limited are the corporate trustees and members of the classes of discretionary beneficiaries comprise the late Dr. Cha Chi Ming's issue.

(7) Oversea-Chinese Banking Corporation Limited holds 87.60% equity interest of Great Eastern Holdings Limited, which in turn holds 100% equity interest of Great Eastern. Each of Oversea-Chinese Banking Corporation Limited and Great Eastern Holdings Limited are therefore deemed to be interested in the H Shares held by Great Eastern under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any interests or short positions owned by any persons (other than the Directors or chief executive of the Company) in the Shares, underlying shares or debentures of the Company which are required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

## 7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director had entered into any service contract or letter of appointment with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) nor had any of the Directors entered into any service contract or letter of appointment with any member of the Enlarged Group or associated companies which are in force and are fixed term contracts and which have more than 12 months to run irrespective of the notice period or which are continuous contracts with a notice period of 12 months or more, or which have been entered into or amended within six months prior to the date when trading in the H Shares was suspended for purpose of the Proposed Acquisition.

## 8. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed in this circular:

a) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Enlarged Group, or are proposed to be acquired, disposed of by, or leased to any member of the Enlarged Group; and

b) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

## 9. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors nor their respective associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the businesses of Enlarged Group.

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION

The aggregate remuneration (including fees, salaries, allowances and benefits in kind, discretionary bonuses and retirement benefits) paid to the Directors and Supervisors by the Group for each of the three years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016 were RMB4,922,047, RMB2,012,335, RMB6,383,738 and RMB3,803,610, respectively.

Save as disclosed above, no other payments have been paid or are payable, and no benefits in kind have been granted, in respect of each of the three years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016, by the Group to the Directors and Supervisors.

## 11. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name of Director | Name of company which had such discloseable interest or short position | Position within such company |
|---|---|---|
| Ding Xuedong | Huijin | Chairman |
| Liu Haifeng David | KKR & Co. L.P. and its affiliates | Global Partner, Chief Executive Officer in Greater China and co-head of Private Equity Asia |
| Shi Jun | I&G | President |
| Cha Mou Daid Johnson | Mingly | Director |

## 12. SHAREHOLDINGS AND DEALINGS

### (A) Shareholdings and dealings in the shares and the convertible securities, warrants, options and derivatives in respect of the shares of CISC (the "CISC Securities")

a) As at the Latest Practicable Date,

a. save for the Equity Transfer Agreement, the Company was not interested in any CISC Securities;

b. none of the directors of CISC or the Directors was interested in any CISC Securities or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

c. save as disclosed in the chart as set out in the paragraph headed "Shareholding structure of the Company before and after completion of the Proposed Acquisition" in the Letter from the Board, none of the parties acting in concert with Huijin owned or controlled any CISC Securities or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;

d. none of Huijin nor any parties acting in concert with it had borrowed or lent any CISC Securities or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; and

e. there was no agreement, arrangement or understanding (including any compensation arrangement) between Huijin or any parties acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or was dependent upon the Proposed Acquisition or the Whitewash Waiver.

b) None of the Company nor the Directors had dealt for value in CISC Securities or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the period beginning six months prior to the date of the Announcement, and ending on the Latest Practicable Date (the "**Relevant Period**").

c) None of Huijin nor parties acting in concert with it had dealt for value in CISC Securities or any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

d) As at the Latest Practicable Date, neither the Company nor any Director held any shares of Huijin, or any convertible securities, warrants, options or derivatives which confer any right to subscribe for, convert or exchange into shares of Huijin. During the period commencing six months immediately preceding the date of the Announcement and up to the Latest Practicable Date, there were no dealings in any shares or securities of Huijin, or any convertible securities, warrants, options or derivatives which confer any right to subscribe for, convert or exchange into shares of Huijin, by the Company or any Director.

(B) **Shareholdings and dealings in the Shares and the convertible securities, warrants, options and derivatives in respect of the Shares (the "Company Securities")**

a) As at the Latest Practicable Date:

a. save as disclosed in the chart as set out in the paragraph headed "Shareholding structure immediately prior to and following the completion of the Proposed Acquisition" in the Letter from the Board, none of Huijin and parties acting in concert with it was interested in any Company Securities;

b. save as disclosed in the table as set out in the paragraph headed "— 6. Disclosure of interests" in this appendix, none of the directors of CISC or the Directors was interested in any Company Securities. In relation to the resolutions approving the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver, each of Mr. Cha Mou Daid Johnson, Mr. Edwin Roca Lim and Mr. Siu Wai Keung, in respect of his own beneficiary shareholdings, intends to vote in favour of such resolutions;

c. none of the Company nor the Directors had borrowed or lent any Company Securities; and

d. none of Huijin nor any parties acting in concert with it had borrowed or lent any Company Securities.

b) Save for the Equity Transfer Agreement, none of Huijin, parties acting in concert with it and the Directors had dealt for value in any Company Securities during the Relevant Period.

c) None of Huijin or parties acting in concert with it had secured any irrevocable commitment to vote for or against the Proposed Acquisition (including the proposed issue of the consideration shares and the proposed amendments to the Articles of Association) or the Whitewash Waiver during the Relevant Period.

d) As at the Latest Practicable Date, Huijin had no intention to transfer, charge or pledge the Consideration Shares to any other persons upon completion of the Proposed Acquisition.

e) As at the Latest Practicable Date, none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company nor the Independent Financial Adviser in relation to the Proposed Acquisition and the Whitewash Waiver nor any other advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code owned or controlled any Company Securities or had dealt for value in any such securities of the Company during the Relevant Period.

f) As at the Latest Practicable Date and during the Relevant Period, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code, and with Huijin or any parties acting in concert with it.

g) As at the Latest Practicable Date, no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.

h) In accordance with the Listing Rules and the Takeovers Code, Huijin, being a substantial Shareholder, and its associates will abstain from voting on the relevant resolutions to approve the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and the Whitewash Waiver.

## 13. MATERIAL LITIGATION

As of the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

## 14. SUMMARY OF MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) had been entered into by members of the Group and CISC within two years immediately preceding the Latest Practicable Date:

a) the Equity Transfer Agreement;

b) a Hong Kong underwriting agreement dated October 26, 2015 relating to the Hong Kong public offering by the Company of initially 61,140,800 H Shares entered into by, among others, the Hong Kong underwriters and the Company;

c) a cornerstone investment agreement dated October 10, 2015 and a supplemental agreement to cornerstone investment agreement dated October 23, 2015 entered into among the Company, CIZJ Limited and CICCHKS, pursuant to which CIZJ Limited agreed to subscribe for our H Shares in the amount of US$100 million;

d) a cornerstone investment agreement dated October 21, 2015 entered into among the Company, Baosteel Group Corporation and CICCHKS, pursuant to which Baosteel Group Corporation agreed to subscribe for our H Shares in the amount of US$50 million;

e) a cornerstone investment agreement dated September 16, 2015 entered into among the Company, CGN Investment (HK) Co., Limited and CICCHKS, pursuant to which CGN Investment (HK) Co., Limited agreed to subscribe for our H Shares in the amount of US$50 million;

f) a cornerstone investment agreement dated October 22, 2015 entered into among the Company, China Mobile (Hong Kong) Group Limited and CICCHKS, pursuant to which China Mobile (Hong Kong) Group Limited agreed to subscribe for our H Shares in the amount of US$50 million;

g) a cornerstone investment agreement dated October 21, 2015 entered into among the Company, Commercial Aircraft Corporation of China, Ltd. and CICCHKS, pursuant to which Commercial Aircraft Corporation of China, Ltd. agreed to subscribe for our H Shares in the amount of US$50 million;

h) a cornerstone investment agreement dated October 15, 2015 entered into among the Company, Value Partners Hong Kong Limited and CICCHKS, pursuant to which Value Partners Hong Kong Limited agreed to subscribe for our H Shares in the amount of US$50 million;

i) a cornerstone investment agreement dated October 19, 2015 entered into among the Company, China Chengtong Holdings Group Limited and CICCHKS, pursuant to which China Chengtong Holdings Group Limited agreed to subscribe for our H Shares in the amount of US$30 million;

j) a cornerstone investment agreement dated September 22, 2015 entered into among the Company, CSR (Hong Kong) Co. Limited and CICCHKS, pursuant to which CSR (Hong Kong) Co. Limited agreed to subscribe for our H Shares in the amount of US$30 million;

k) a cornerstone investment agreement dated October 22, 2015 entered into among the Company, Xinhua News Agency Investment Holdings Co., Ltd and CICCHKS, pursuant to which Xinhua News Agency Investment Holdings Co., Ltd agreed to subscribe for our H Shares in the amount of US$30 million; and

l) a cornerstone investment agreement dated October 9, 2015 and a supplemental agreement to cornerstone investment agreement dated October 16, 2015 entered into among the Company, The Prudential Insurance Company of America and CICCHKS, pursuant to which The Prudential Insurance Company of America agreed to subscribe for our H Shares in the amount of US$25 million.

## 15. QUALIFICATIONS OF EXPERTS AND CONSENTS

The qualifications of the experts who have given an opinion or advice in this circular are as follows:

| Name | Qualification |
|---|---|
| CICCHKS | Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 ( advising on futures contracts) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| ABCI | Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| Somerley | Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO |
| Haiwen & Partners | PRC legal advisers |
| KPMG | Certified public accountants |
| China Enterprise Appraisals Co., Ltd. | Independent appraiser |

As of the Latest Practicable Date, the above experts have given and have not withdrawn its written consent to the issue of this circular with the inclusion of its report(s) and/or letter(s) and/or valuation certificates and/or opinion(s) and the references to their names included herein in the form and context in which it is respectively included.

CICCHKS is an indirectly wholly-owned subsidiary of the Company. As at the Latest Practicable Date, none of the experts (other than CICCHKS) had any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, none of the experts had any direct or indirect interests in any assets which have been, since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

## 16. ARRANGEMENT AFFECTING DIRECTORS

a) As at the Latest Practicable Date, no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and/or the Whitewash Waiver.

b) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Proposed Acquisition (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and/or the Whitewash Waiver or otherwise connected with the (including the proposed issue of the Consideration Shares and the proposed amendments to the Articles of Association) and/or the Whitewash Waiver.

c) As at the Latest Practicable Date, there was no material contract entered into by Huijin in which any Director had a material personal interest.

## 17. MISCELLANEOUS

a) The joint company secretaries of the Company are Mr. WU Bo and Mr. ZHOU Jiaxin.

b) The registered office of the Company is located at 27th and 28th Floor China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC.

c) The head office and principal place of business of the Company in the PRC is at 27th and 28th Floor China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC and the principal place of business of the Company in Hong Kong is at 29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, respectively.

d) The H Share registrar of the Company is Computershare Hong Kong Investors Services Limited of 17M/F floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.

e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

f) The registered office of Huijin is located at New Poly Plaza, 1 Chaoyangmen Beidajie, Dongcheng District, Beijing, the PRC.

g) The board of directors of Huijin comprises Mr. Ding Xuedong, Mr. Li Jiange and Mr. Bai Tao.

**18. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION**

Copies of the following documents are available for inspection by Shareholders during normal business hours from 9:30 a.m. to 5:00 p.m., Monday to Friday (other than public holidays) (i) at 29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.cicc.com) from the date of this circular up to and including the date of the EGM and the Shareholders' Class Meetings:

a) the Articles of Association;

b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

c) the letter of recommendation from the Independent Board Committee dated 5 December 2016, the text of which is set out on pages 46 to 47 of this circular;

d) the letter of recommendation from the Independent Financial Adviser dated 5 December 2016, the text of which is set out on pages 48 to 83 of this circular;

e) the letter from KPMG relating to the valuation report, the text of which is set out in Appendix I in this circular;

f) the letter from Financial Advisers relating to profit forecast;

g) the interim report of the Company for the six months ended 30 June 2016;

h) the annual report of the Company for the year ended 31 December 2015;

i) the prospectus of the Company dated 27 October 2015;

j) the Accountants' Report of CISC Group from KPMG, the text of which is set out in Appendix IV in this circular;

k) the Report on the Unaudited Pro Forma Financial Information of the Enlarged Group from KPMG, the text of which is set out in Appendix V in this circular;

l) the valuation report issued by the PRC Valuer, the summary of which is set out in Appendix VII in this circular;

m) a copy of each of the material contracts set out in the section headed "Summary of Material Contracts" in Appendix VIII in this circular;

n) the written consents referred to in the section headed "Qualifications of Experts and Consents" in Appendix VIII to this circular;

o) the Equity Transfer Agreement; and

p) a copy of this circular.